

UNITED STATES-CHINA TRADE RELATIONS AND RENEWAL OF CHINA'S MOST-FAVORED-NATION STATUS

HEARING BEFORE THE SUBCOMMITTEE ON TRADE OF THE COMMITTEE ON WAYS AND MEANS HOUSE OF REPRESENTATIVES ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

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**UNITED STATES-CHINA TRADE RELATIONS
AND RENEWAL OF CHINA'S MOST-FAVORED-
NATION STATUS**

TUESDAY, JUNE 11, 1996

HOUSE OF REPRESENTATIVES,
COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, DC.

The Subcommittee met, pursuant to notice, at 10:13 a.m., in room 1100, Longworth House Office Building, Hon. Philip M. Crane (Chairman of the Subcommittee) presiding.

[The advisory announcing the hearing follows:]

(1)

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS

SUBCOMMITTEE ON TRADE

FOR IMMEDIATE RELEASE
June 7, 1996
No. TR-25

CONTACT: (202) 225-6649

Crane Announces Hearing On U.S.-China Trade Relations And Renewal Of China's Most-Favored-Nation Status

Congressman Philip M. Crane (R-IL), Chairman of the Subcommittee on Trade of the Committee on Ways and Means, today announced that the Subcommittee will hold a hearing on U.S.-China trade relations, including the issue of renewing China's most-favored-nation (MFN) status. **The hearing will take place on Tuesday, June 11, 1996, in the main Committee hearing room, 1100 Longworth House Office Building, beginning at 10:00 a.m.**

Oral testimony at this hearing will be heard from invited witnesses. Also, any individual or organization may submit a written statement for consideration by the Committee or for inclusion in the printed record of the hearing.

BACKGROUND:

Non-discriminatory MFN trade status was first granted to the People's Republic of China on February 1, 1980, and has been extended annually since that time. Annual extensions are granted based upon a Presidential determination and report to Congress that such an extension will substantially promote the freedom of emigration objectives in Title IV of the Trade Act of 1974, the so-called Jackson-Vanik amendment. Subsections 402 (a) and (b) of the Trade Act set forth criteria which must be met, or waived by the President, in order for the President to grant MFN status to non-market economies such as China.

The annual Presidential waiver authority under the Trade Act expires on July 3 of each year. The renewal procedure requires the President to submit to Congress a recommendation for a 12-month extension by no later than 30 days prior to the waiver's expiration (i.e., by no later than June 3). The waiver authority continues in effect unless disapproved by Congress within 60 calendar days after the expiration of the existing waiver. Disapproval, should it occur, would take the form of a joint resolution disapproving the President's determination to waive the Jackson-Vanik freedom of emigration requirements for China.

FOCUS OF THE HEARING:

The focus of the hearing will be to evaluate overall U.S. trade relations with the People's Republic of China, and to consider the extension of MFN status for China for an additional year on the basis of that country's emigration performance. The Subcommittee will be interested in hearing testimony on China's emigration policies and practices; on the nature and extent of U.S. trade and investment ties with China and related issues; and on the potential impact on China, Hong Kong, Taiwan, and the United States of a termination of China's MFN status.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Any person or organization wishing to submit a written statement for the printed record of the hearing should submit at least six (6) copies of their statement by the close of business, Tuesday, June 18, 1996, to Phillip D. Moseley, Chief of Staff, Committee on Ways and Means, U.S. House of Representatives, 1102 Longworth House Office Building, Washington, D.C. 20515. If those filing written statements wish to have their statements distributed to the press and interested public at the hearing, they may deliver 200 additional copies for this purpose to the Subcommittee on Trade office, room 1104 Longworth House Office Building, at least one hour before the hearing begins.

(MORE)

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and the public during the course of a public hearing may be submitted in other forms.

Note: All Committee advisories and news releases are now available over the Internet at GOPHER.HOUSE.GOV, under 'HOUSE COMMITTEE INFORMATION'.

Chairman CRANE. Good morning. This is a meeting of the Ways and Means Trade Subcommittee to review the critical issue of United States-China trade relations.

On an annual basis, as required by 1974 Jackson-Vanik statute, Congress considers the question of renewing China's MFN trade status. We must continue to emphasize that MFN is normal or standard trade treatment, uniform among 150 U.S. trading partners. I believe it is misleading to characterize MFN as exceptional or special tariff treatment.

My colleagues know that I am a strong supporter of expanding trade relations with China as the most effective way to promote change and improve human rights. The annual process of subjecting the United States-China trade relationship to a hostile vote in Congress is harmful to our deeply felt goals of freedom and prosperity for the Chinese people. It simply does not increase our leverage or our influence in China.

I am encouraged by the growing view among the U.S. business community that the Jackson-Vanik statute should be revised to reflect the importance of the Chinese economy to long-term U.S. interests in Asia.

I would now like to yield to my distinguished colleague from New York, Mr. Rangel, for an opening statement and for everyone to wish him happy birthday, which is this great day. [Applause.]

Mr. RANGEL. Thank you.

Chairman CRANE. I want to thank the witnesses in advance for their prepared testimony, and ideally, if you can try and confine any opening remarks to 5 minutes, any extended remarks will be made a part of the permanent record.

Now I yield to the birthday boy.

Mr. RANGEL. Thank you, Mr. Chairman. I might heartily add that I hope that no one treats me any differently today than any other celebrity. [Laughter.]

Thank you for holding today's hearing. We all agree that China poses one of the most significant trade and foreign policy challenges for the United States. I hope that this hearing and the proposed renewal of China's most-favored-nation status would shed more light on the problems that we face, China and therefore the world.

We have to really try to decide how we are going to wrestle with and handle the ever-growing \$34 billion trade surplus that China has with the United States. I, for one, do not understand and hope I never understand the way China believes it can continue to violate our intellectual property rights and ignore the vast amount of time, money, and research that we put into what is our most valuable export.

It is true that trading with China does provide many jobs for the people in the United States and around the world, but notwithstanding that, I think that China should be placed on notice that this country cannot afford to have its assets just stolen and pirated because of some difference in culture, as I understand it from those who are China watchers.

In any event, the President is correct that we should not just arbitrarily cutoff trade with China. It is too serious a question for us

to treat that way. The question of human rights continues to be a very important subject that will remain on our agenda.

I just hope that it is abundantly clear to all that I am a strong supporter of the U.S. intellectual property rights, and in this regard, I cosponsored H.R. 3421, to impose increased tariffs on Chinese products until the President certifies that China complies with the agreement to protect intellectual property rights. I also support strict monitoring of the United States-China Bilateral Textile Agreement, especially provisions related to transshipment of textiles through other countries.

If we decide, and I know we will, to support China's continued MFN status, we must nevertheless identify and consider other options available to effectuate changes in China, if our current policies over time, and I do not know how much time, fail to produce the desired results, not only for us, but for the rest of the world. I suggest a stronger Congressional role in China's accession to the WTO and hope that the Trade Subcommittee would discuss this idea in depth at the appropriate time.

I would want my friend, Mr. Solomon, who is a fellow New Yorker, to know that the way the Chinese treated me on November 30, 1950, on the Yalu River has nothing to do with my position today. I look forward to this hearing and I thank you for calling it.

[The opening statement follows:]

OPENING STATEMENT OF HON. CHARLES B. RANGEL

Mr. Chairman, thank you for holding today's hearing. We would all agree that China poses one of the most significant trade and foreign policy challenges for the United States.

I hope that this hearing on United States-China trade relations and the proposed renewal of China's Most-Favored-Nation status will shed more light on the broader questions and challenges confronting the United States in China.

On the trade side, we must determine how to best address China's burgeoning \$34 billion trade surplus with the United States; China's piracy and gross violations of Intellectual Property Rights; discriminatory entry barriers in China to U.S. trade and investment; and, Chinese accession to the World Trade Organization (WTO).

On other fronts, we cannot ignore the cries and aspirations inside China for justice and democracy. We must continue to aggressively confront and condemn China's disregard for human rights, the revocation of liberties for masses of people, and the blatant disrespect for the due process of law.

China must also adhere to the spirit and letter of nonproliferation. The United States, as the leader and champion of freedom, peace and democracy, must pursue policies that will assure China's respect for these fundamental principles.

While these principles can be applied within the context and dignity of a country's culture—the basic universal principles of humanity must not be compromised.

I have heard credible arguments both pro and con regarding the use of MFN to bring about constructive change in China.

As a backdrop to this debate, we must keep in mind China's immense importance as one of our largest trading partners—with nearly 200,000 U.S. jobs tied to over \$55 billion in bilateral trade. China's enormous size as the third largest economy in the world with over of 1.2 billion people; and, U.S. security interests in Asia are also interconnected to overall U.S. policy towards China.

Parenthetically, I would also note with interest that in 1995, New York's exports to China totaled over half a billion dollars—rising at a rate of almost 40% in two years.

The Clinton Administration has sought to navigate U.S. trade and foreign policy through this web of challenges and competing priorities. President Clinton has decided to renew MFN for China for another year in the context of his overall policy of constructive engagement with China.

I have been asked by the Administration to support this policy even though there is no strong evidence to suggest that this policy has resulted in tangible benefits

for the United States in terms of a reduction in the bilateral trade deficit or a lessening of human rights abuses. Apparently more time and patience are needed.

Nonetheless, I hope that the Administration officials present today can further clarify how we can develop a constructive framework with China that will advance U.S. policy objectives in both trade and human rights without resorting to a withdrawal of MFN.

On other matters, I am a strong supporter of U.S. intellectual property rights. In this regard, (co-sponsored H.R. 3421 to impose increased tariffs on Chinese products until the President certifies that China complies with the agreement to protect intellectual property rights.

I also support strict monitoring of China's bilateral textile agreement—especially provisions related to performance on transshipments of textiles through other countries.

If we decide to support China's continued MFN status, we must, nonetheless, identify and consider other options available to effectuate change in China, if our current policies over time fail to produce desired results.

Some have suggested, for example, a stronger Congressional role in China's accession to the WTO. I would hope that the Trade Subcommittee would discuss this idea in depth at the appropriate time.

Mr. Chairman, I look forward to this hearing this morning and hope that these issues will be addressed by our witnesses.

Chairman CRANE. I would like to yield at this time to Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman.

I come from the Nation's most trade-dependent State, Washington State, so the question of United States-China trade is crucial to the folks I represent here in Congress. In fact, Washington State ranks among all 50 States number one in exports to China.

I believe that trade with China promotes change. U.S. trade and investment teaches the skills of free enterprise that are fundamental to a free society. For instance, in my home State, we export a number of U.S. products, from aircraft to software. Every single airplane and every single CD carry with them the seeds of change. These products further serve to unleash the free market desires of the Chinese people. It is in our national interest to move China toward a free market enterprise.

Now let me address directly the issue of China MFN, one of the great misnomers of our time. MFN status is not a concession and does not mean that China is getting preferable trade treatment. Let me state this again. MFN is not a tariff preference or a form of special treatment. It is the cornerstone of commercial relations between the United States and any foreign country.

I am working with a number of my colleagues in the other body on legislation to eliminate this misnomer once and for all. The most confusing point in this debate for the public is that "most-favored-nation" status is nothing of the kind. As Senator Moynihan and as Chairman Crane have pointed out, MFN really means "normal trade relations." We should call it "NTR" instead of "MFN."

Again this year, I proposed that we use the following criteria to find the answer on difficult MFN cases like China. I believe these criteria must become our compass in our decision. We should extend normal trade relations or MFN to a nation if they allow U.S. investors and advisers in, the rule of law is advancing in that country, a multilateral action is unattainable or unsustainable, and we have that nation's assistance on a critical geopolitical issue.

Conversely, we should deny normal trade status to governments abusing their people if an effective multilateral action is doable and the United States can expect no help from that government on other critical geopolitical issues, if they do not allow U.S. employers

or advisers into their country, or if they do not respect the rule of law.

Last year, I believed China met the test for normal trade status and I continue to believe the same thing now. Indeed, I would take it one step further by stating that the burden of proof is on those who deny normal trade status with China. They must prove that an active protest would demonstrably improve the human rights situation in China or that it would address grinding poverty or that it would lessen religious persecution. I submit that the only thing we know for sure right now is that such an act of protest would increase unemployment and suffering here in the United States.

Thank you, Mr. Chairman.

[The opening statement of Ms. Dunn follows:]

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UNITED STATES
 HOUSE OF REPRESENTATIVES

COMMITTEE ON WAYS AND MEANS
 SUBCOMMITTEES
 TRADE
 HUMAN RESOURCES
 HOUSE OVERSIGHT
 COMMITTEE

Congresswoman Jennifer Dunn
 8th Congressional District of Washington State
 Opening Statement
 House Ways and Means Trade Subcommittee
 June 11, 1996

Thank you Mr. Chairman.

I come from the nation's most trade-dependent state, so the question of US-China trade is crucial to the people I represent in Congress. In fact, Washington state ranks first among all 50 states in exports to China.

Today, of course, U.S.-China trade relations are within the larger context of the overall U.S.-China relationship.

Clearly, our overall China policy must be revisited. Under our form of government, the Executive Branch bears the responsibility for our policy. Yet, the Congress can and should be a valuable partner in this review.

Together, we must make clear to the Chinese that their participation in the world economy and in international security arrangements can only come about with **concrete** evidence that China is abiding by norms of international behavior.

Let me be clear: disengagement will **not** help us understand China. The only way we can accomplish this is to continue our policy of engagement. We must speak -- **not to** the Chinese, but rather with them -- in a clear dialogue. That can help China to transform in a peaceful and stable way which is clearly in our national interest.

A key subset of that overall China policy, of course, is trade.

Trade with China promotes change. US trade and investment teaches the skills of free enterprise that are fundamental to a free society. For instance, in my home state of Washington, we export a number of U.S. products, from aircraft to software. And every single airplane and every single CD carries with it the seeds of change. These products serve to further unleash the free-market desires of the Chinese people. And let me just say that I will take the word of Americans working in China over the word of bureaucrats working in Washington, D.C. when it comes to whether or not our commercial engagement is having a positive effect on China.

I would like to speak for a moment on the issue of China MFN -- one of the great misnomers of our time!

MFN status is not a concession and does not mean that China is getting preferable trade treatment. Let me state this again: MFN is **not** a tariff preference or a form of special treatment. It is the cornerstone of commercial relations between the United States and any foreign country.

I am working with a number of my colleagues in the other body on legislation to eliminate this misnomer once and for all. The most confusing point in this debate for the public is that "most favored nation" status is nothing of the kind. As Sen. Moynihan has pointed out, MFN really means "normal trade relations." We should call it NTR rather than MFN.

The China MFN issue has been hung up on two competing policy goals: Is our goal to maximize our own U.S. jobs? Or is it to make the cause of human rights primary as a means to achieving our best long-term trade interests?

The answer, I believe, is **both**. The goals are **not** mutually exclusive.

Again this year, I proposed that we use the following criteria to find the answer on difficult MFN cases like China's: I believe these criteria must become our compass. We **should** extend normal trade relations, or MFN, to a nation if:

They allow U.S. investors and advisors in...
 The rule of law is advancing in that country...
 A multilateral action is unattainable or unsustainable...
 Or we have that nation's assistance on a critical geopolitical issue...

Conversely, we should **deny** normal trade status to governments abusing their people if:

An effective multilateral action is doable...
 And the U.S. can expect no help from that government on other critical geopolitical issues...
 They do not allow U.S. employers or advisors into their country...
 They do not respect the rule of law...

Last year, I believed China met the test for normal trade status and I continue to believe the same now.

Indeed, I would take it one step further by stating that the burden of proof is on those who who deny normal trade status with China. They must prove that an act of protest would demonstrably improve the human rights situation in China, how it would diminish suffering, how it would address grinding poverty, or how it would lessen the religious persecution now practiced in China. I submit that the only thing we know for sure is that such an act of protest would increase unemployment and suffering in the United States.

There is a better way. The President should turn a moral spotlight on, for instance, the religious persecution practiced against Chinese citizens by following through on his pledge to create a special advisory office to the President on such matters. Unfortunately, the President has yet to live up to a promise to do precisely that.

Actions like that -- targeted at the problem rather than at American workers -- is far more likely to achieve the goals we all share of expanding human rights **and** expanding trade.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you.

Now I would like to yield to our first witness, our distinguished colleague from New York, Mr. Solomon, who has a long record in Congress on this issue.

STATEMENT OF HON. GERALD B. SOLOMON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. SOLOMON. Thank you very much, Mr. Chairman and Ranking Member Rangel. Charlie, if I might, welcome to us senior citizens. We appreciate your company.

Mr. RANGEL. What do you mean, "we senior citizens"? [Laughter.]

Mr. SOLOMON. Mr. Chairman, I also would like to just say that looking at this distinguished panel, you certainly seem to epitomize intelligence and common sense. Therefore, when this hearing is over and you mark up this legislation, I hope you use that good common sense and intelligence in favorably reporting this bipartisan Rohrabacher, Solomon, Pelosi, Smith, Kaptur, and Cox resolution of disapproval. That is what we are here to talk about today.

Mr. Chairman, I guess I have been coming before this Subcommittee so many years now to talk about this issue it seems like *deja vu*. I think you all know my views on this issue, so I will be as brief as possible. But to complete the record so that I do not take up too much of your time, I would like to ask unanimous consent to submit the excellent article by Robert Kagan that appeared in *The Weekly Standard* this past week, if I might, Mr. Chairman. Do I have unanimous consent, sir?

Chairman CRANE. Yes, it will be inserted.

[The following was subsequently received:]

MOST FAVORED NATION—OR MOST APEASED?

By Robert Kagan

Bill Clinton's announcement last week that he will seek unconditional renewal of China's most-favored-nation status is the latest evidence of a metamorphosis remarkable even for this president. Though he relentlessly attacked the Bush administration's China policy as bereft of human-rights concerns during his 1992 candidacy, in office Clinton has become the spiritual godson of Henry Kissinger. After a very brief flirtation with risky originality, Clinton has sought safety in the conventional wisdom of the bipartisan foreign policy and business elite, in which he stands shoulder to shoulder with his presidential rival, Bob Dole.

Incoherence on China is not unique to Bill Clinton's foreign policy. It has been a problem for politicians of both parties since the late 1980s. The collapse of the Soviet Union and its Communist empire swept away the original foundation on which the Sino-American rapprochement was built in the early 1970s. America's interests and priorities have shifted as policymakers must now grapple with how to manage a world in which the United States is the sole superpower. At the same time, China's place in the constellation of global powers has shifted; from its position as the weakest side of the Sino-Soviet-American triangle as recently as 10 years ago, China seems poised over the coming decade to become the principal challenger to American dominance of the world order.

The lack of clarity and resolve in American policy toward China today is due to the failure of policymakers to recognize these changes and reorient American strategy to deal with them. The result has been worse than incoherence. American policies these days are starting to look a lot like the kind of appeasement that eventually leads to disaster.

Twenty-five years ago, the logic of the U.S.-China relationship was clear. At a time when American power seemed in Vietnam-saturated decline, Richard Nixon and Henry Kissinger were searching for quick and easy ways of redressing the increasingly unfavorable U.S.-Soviet balance while shoring up Nixon's political standing at home. Playing the "China card" looked like a brilliant strategic gambit, a simple mat-

ter, as Kissinger recalled in his memoirs, of "align[ing] oneself with the weaker of two antagonistic partners, because this acted as a restraint on the stronger." Kissinger did not share the view of State Department Sinophiles that good relations with China were a worthy end in themselves; he considered them a means to the end of shaping Soviet behavior and inducing Soviet leaders to accept the outstretched hand of détente. Indeed, as former Kissinger aide Peter W. Rodman has noted, the real purpose of "triangular diplomacy" was not to forge a permanent strategic partnership with China against Russia but "to secure better relations with both."

The shift to a more enduring strategic partnership with China came during the Carter administration under the direction of national security adviser Zbigniew Brzezinski. Alarmed at the Soviet Union's increasing adventurism in the Third World from Africa to Southeast Asia, Brzezinski sought to involve the Chinese more directly on the U.S. side in the worldwide anti-Soviet struggle. Kissinger aimed at playing both Communist giants against each other, but Brzezinski in 1978 traveled to Beijing to tell Deng Xiaoping that the United States had "made up its mind" and had chosen China. The price the Carter administration willingly paid for this new strategic partnership was the completion of the process of normalization Nixon had begun, including the revocation of U.S. recognition of Taiwan. In American foreign policy circles, Brzezinski's actions firmly established the still-extant bipartisan consensus on the overriding strategic importance of U.S.-Chinese relations.

The world of the 1970s looked very different from today's, however. The West was suffering from a paralyzing loss of confidence in its institutions and its liberal values. Communism still seemed to many around the world, and even to some in the United States, a viable if not superior alternative to capitalism. The great, resurgent successes of liberal capitalism—the Reagan boom here, the rise of the economic "tigers" in East Asia—lay in the future. The policymakers of the 1970s could not even have begun to imagine the worldwide democratic revolution that began in the

1980s in Latin America and Asia and then spread to Central and Eastern Europe and Russia. Instead, the United States was surrounded by dictatorships in its own hemisphere and maintained supportive relations with them and many others around the world.

In such a world, the strategic value of American rapprochement and then partnership with a Communist China seemed to outweigh the sacrifice of American ideals such as a relationship required. Churchill had been willing to "sup with the devil" in order to defeat Hitler; few questioned the logic of closer U.S.-Chinese ties in a world where democracy and capitalism seemed to be imperiled by an expanding Soviet empire. In a world filled with dictatorships of both the left- and right-wing varieties, moreover, few believed the United States could afford to be picky about how its allies governed themselves.

Which is not to say that everyone in the United States was enthusiastic about the new partnership with Communist China. Conservative Republicans, including the old "China Lobby" with its bitter memories of 1949 and the "betrayal" of Chiang Kai-shek, opposed some elements of the new course—especially when it was conducted by the Democratic administration of Jimmy Carter. Thus Robert Dole, although a devoted supporter of Nixon, vigorously opposed Carter's normalization of relations with China at the end of 1978. After normal ties were established, as Jim Mann of the *Los Angeles Times* has recently noted, Dole called on the White House to invite the president of Taiwan to Washington. From the floor of the Senate in 1979, he insisted that the Taiwan Relations Act must not leave America's old ally undefended against aggression by America's new ally. And when Carter proposed extending most-favored-

nation status to China in 1980, Dole led the opposition and introduced legislation denying it to any nation that, like China, had not yet signed the nuclear non-proliferation treaty.

Despite these efforts by its Republican allies, however, the authoritarian regime in Taiwan had a difficult time winning much support in the United States. The

dominant view of American policymakers in both parties was that holding the prized China card was essential to America's strategic well-being and that other issues—like sentimental ties to Taiwan, like the sharp ideological differences between China and the United States—had to be set aside.

The resurgence of American power and will under Ronald Reagan ought to have changed this and many other calculations. And to some extent during the 1980s, it did. Reagan, who had achieved preeminence in the Republican party partly by leading a crusade against the Nixon-Kissinger foreign policy, did not share Kissinger's and Brzezinski's strong attachment to the China card. Reagan himself was a longtime supporter of Taiwan, and as Peter Rodman points out, in the Reagan administration "even the younger officials making Asia policy . . . thought that the Nixon, Ford, and Carter administrations had all gone overboard in their sentimentality about China."

There was also strategic logic to the Reagan administration's de-emphasis of the relationship with China. At a time when Reagan was determined to challenge the Soviets directly on all fronts, both militarily and ideologically, a China policy born in a time of strategic weakness was less compelling: Reagan simply didn't believe he needed China as much as Nixon and Carter had.

The worldwide ideological offensive that Reagan



launched at the start of his second year in office, moreover, could not fail to affect the nature of relations between the United States and China. By the mid-1980s, much of the world appeared to be moving steadily in the direction of liberal economics and liberal government. The dire circumstances that had given birth to the U.S.-China strategic partnership in the 1970s were rapidly giving way in the 1980s to a new international situation that required a recalculation of the value of close ties between the two global powers.

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Finally, the beginning of the collapse of the Soviet empire in 1989 and the emergence of the United States as the world's dominant military, economic, cultural, and ideological power utterly shattered the original rationale for Sino-American partnership. In the post-

Cold War era it was ludicrous to speak of playing the China card, as Kissinger had, to convince Moscow to embrace détente; or as Brzezinski had, to combat Soviet aggression in the Third World. It was no longer possible to describe U.S.-China relations as "align[ing] oneself with the weaker of two antagonistic partners," given the Soviet Union's free fall and China's explosive economic growth.

China itself had appeared to be part of the global trend toward freedom throughout the 1980s. The "Four Modernizations" begun under the leadership of Deng Xiaoping in the late 1970s helped produce the Chinese economic miracle we know today. A Chinese "democracy movement" soon emerged, calling for a "Fifth Modernization," free elections, and in some instances openly praising American-style democracy. Though it was subject to government harassment, the existence of the democracy movement suggested to many American observers that political reform in China was the inevitable next step after Deng's economic reforms.

The massacre at Tiananmen Square in 1989 and the subsequent suppression of dissidents, which continues to this day, dashed these hopes. It could hardly have been better timed to force the United States to reconsider the unpleasant bargain it had made with its conscience in the 1970s. At the same time the old strategic rationale for the U.S.-China partnership was vanishing, the Chinese government cast a bright light

on the acute ideological differences between the two countries. Indeed, after Tiananmen, China emerged as the most powerful opponent of American liberal principles in the world.

In the ensuing years, China would significantly increase its military spending, even as both Soviet and American defense spending declined, and with the clear aim of using its growing military power to enhance its influence abroad. The fruits of these efforts have been apparent in recent years, as China, in the words of Sen. John McCain, has increasingly been "displaying very aggressive behavior"—in the South China Sea, against a newly democratic Taiwan, and in a growing propensity to make arms sales to many of the world's rogue states.

Under these new circumstances, it would seem to make little sense to continue pursuing the old Cold War policies toward China. Yet remarkably, that is just what the Bush administration tried to do after 1989, and what the purveyors of the bipartisan consensus, including most recently the Clinton administration, have been trying to do ever since. Even after the Cold War, the United States maintained "overriding strategic interests in engaging China," former secretary of state James Baker declares in his memoirs, but nowhere does he explain exactly what those "overriding strategic interests" are.

In fact, the most common explanations of the strategic importance of the U.S.-China relationship today are fraught with contradictions. American business leaders, and their supporters in the administration and Congress, constantly point to China's potentially vast market for American goods. But it is striking how unimpressive the economic numbers really are. Last year, American merchandise exports to China amounted to \$12 billion, about 2 percent of overall exports. By comparison, American exports to Taiwan, with a population one-sixtieth as large as the mainland's, were \$19 billion. Meanwhile, China has amassed a \$34 billion trade surplus with the United States, enough to send Patrick Buchanan into fits of protectionist hysteria. Well might the boosters of the U.S.-China trade relationship insist, like Rep. Toby Roth, that "the key is not where China is today. What is important is where China is headed." But how impressive does the future look? Roth boasts that "in just 15 years, China will be our 13th largest export market." Now *there's* a strategic imperative!

In the late 19th century, many American businessmen succumbed to what some historians now call "the myth of the China market." The businessmen, the politicians, and the policymakers of the day could see only the unimaginable bounty that lay in the future of

such a populous country—even though earnings in the near-term proved minuscule and businesses had to suffer losses in an effort to wheedle their way into the good graces of the Chinese powers that controlled foreign trade. A full century later, the bounty is still elusive, but the myth is just as potent.

And today's proponents of the China trade on strategic grounds have adopted another 19th-century nostrum as well: the conviction that increasing trade is the solvent for all the problems of mankind. Nations that trade with one another, the theory goes, will not let clashing strategic interests get in the way of making a buck. After all, Rep. Roth insists, "Economic strength, not military might, determines the world's great powers today." In testimony before Congress recently, Clinton administration official Stuart Eizenstat defended the renewal of most-favored-nation status for China on the grounds that the "commercial relationship provides one of the strongest foundations for our engagement." Argues undersecretary of state Peter Tarnoff: "Our economic and commercial relations increase China's stake in cooperating with us and in complying with international norms." Robert Dole, once the mainland's foe, now agrees: In a May 9 speech, he argued that "extension of most-favored-nation status [is] the best way to promote our long-term interests in China. . . . In China, continuing trade offers the prospect of continuing change."

Is that true? Few Republicans and conservatives would say that trade will reform Castro's Cuba. Nor would they be likely to forget that during the Cold War, the Jackson-Vanik restrictions on trade with the Soviet Union did not prevent political liberalization. On the contrary, the denial of most-favored-nation status to the Soviets may have encouraged reform by forcing the Communist leaders in Moscow to undertake political liberalization as the prerequisite for economic growth.

The view that economics is paramount while military, strategic, and political issues are of declining importance—so-called Manchester liberalism—was rampant in the 19th and early 20th centuries, right up until the outbreak of World War I. It is as dangerous a misconception today as it was then. Nevertheless, this assumption now lies at the heart of American China policy. We need to engage so we can trade, say the businessmen; yes, say the China experts, and we need to trade so we can engage.

In their search for a new rationale for preserving a close relationship between the United States and China, the adherents of today's bipartisan consensus have had to employ such logic constantly. Indeed, the logic of the U.S.-China relationship today has turned

in on itself. In the 1970s, the case for strategic partnership with China was that it was necessary to meet the threat posed by the Soviet Union. Today, it seems, strategic partnership with China is necessary to meet the threat posed by China. Secretary of State Warren Christopher put the case best in his speech on May 17. He noted the "importance of China to our future security and well-being." And what, in addition to the lure of the market, is that importance? The answer is that "China can tip the balance in Asia between stability and conflict." In other words, we need a good relationship with China because China is dangerous. Or as Eizenstat put it, "It is when China's policies are the most difficult that engagement becomes the most essential."

It's a nice racket the Chinese have going. By the current circular logic of American policy, the more trouble the Chinese make—whether in Taiwan, or on trade, or in the South China Sea, or in weapons sales to rogue states—the harder the United States has to work to "engage." There is no dispute on this point now between the leading figures of both parties. Henry Kissinger, in an op-ed piece a few weeks ago, declared that "after Chinese leaders had been pilloried and threatened with sanctions for years," what was needed now was "a serious strategic and political dialogue, . . . a sustained effort to define a common assessment of the future of Asia." Christopher soon after announced his intention to

"develop a more regular dialogue between our two countries." The idea is that regular consultations will "facilitate a candid exchange of views, provide a more effective means for managing specific problems, and allow us to approach individual issues within the broader strategic framework of our overall relationship."

We may be forgiven for doubting whether such candid talks will make a big difference. After all, it's not as if efforts at assiduous diplomacy haven't been tried. After the massacre in Tiananmen Square in 1989, President Bush and his secretary of state saw their main task as protecting the important strategic relationship with China from American outrage at Beijing's massive abuse of individual rights. According to Baker, President Bush's first reaction upon hear-

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ing of the assault at Tiananmen was: "It's going to be difficult to manage this problem." And indeed it was, as Baker's memoirs amply demonstrate. Baker employed precisely the negotiating style that the China experts insist is the only kind capable of producing results—quiet negotiations, no public threats, none of the "spasmodic harassment" Kissinger finds so detrimental, and constant attention to the fact that, as Baker writes, "face is unusually important to [the Chinese], so an interlocutor must negotiate a delicate balance that nudges them toward a preferred course without embarrassing them in the process." Despite all this subtle diplomacy, the Chinese gave Baker absolutely nothing for his troubles. Chinese officials, Baker recalls, "had no compunction about asking for American concessions while simultaneously ignoring my request for 'visible and positive Chinese steps' to make it easier to allay congressional and public anger with Beijing." Throughout the four years of the Bush administration, Baker acknowledges, "the Chinese relationship essentially treaded water."

Under present policies, in the years to come the United States will continue to tread water, or worse. The truth is, our posture today is, simply, plain old appeasement. One bit of proof is that we are not supposed even to use the word "containment" to describe our policy toward China lest we suggest to the Chinese that in some way we may consider them adversaries. The United States "should not, and will not, adopt a policy of containment towards China," declares Undersecretary Tharoff. Why not? Because "we would gain nothing and risk much if China were to become isolated and unstable." In other words, even if it were necessary to contain China, it would be too dangerous to attempt the task. This is Kissinger's view, as well. Any attempt to pursue a policy of "containment" of China, Kissinger has argued, is "reckless" and a "pipe dream."

Such a skittish approach to another world power might be forgivable if our own nation were weak. But the same people who fear a policy of "containment" often boast that China needs the United States more than the United States needs China. In a trade war, for instance, Eisenhower argues that "China has a lot more to lose than we do." Like that \$34 billion trade surplus, for instance. According to Baker, the Chinese "need our help to sustain their economic growth." And Baker, who got nowhere in four years of subtle diplomacy with Beijing, even believes that the Chinese understand toughness: "Strength inevitably irritates the Chinese, but they understand it. And the absence of resolve in dealing with them can lead to serious miscalculation on their part."

And yet "the absence of resolve" would seem to be the best characterization of the policy that the Bush administration and now the Clinton administration have chosen to pursue toward China. When Baker negotiated with the Chinese during the Bush years, he always went out of his way to make clear that the Bush administration was entirely "committed to maintaining the relationship," that it was always "seeking ways to reconcile our estrangement." Little wonder that, according to Baker, the Chinese "seemed utterly oblivious to our concerns." It is axiomatic that if the United States enters all negotiations with China with the mutual understanding that ultimately American leaders will not allow an estrangement in the relationship, then the Chinese will win in most of the negotiations.

In every relationship between nations there is a horse and a rider, Bismarck once noted, and one should endeavor to be the rider. American policy toward China today almost guarantees that we will be the horse.

How can the United States restore the resolve that James Baker believes is so essential to effective dealings with China? This week Congress is debating and voting on the renewal of most-favored-nation status for China. It will surely pass, and perhaps it ought to. The fate of U.S.-China relations should not rest on this relatively narrow issue. The problem with our China policy goes deeper than simple trade rules. Dealing with an increasingly powerful and ambitious China over the coming years will require a strong and determined America willing either to engage or to contain China, depending on Chinese behavior.

Still, most-favored-nation status has become a symbol of China's whip hand over us. Our unwillingness to pay what is still a relatively small economic price in terms of lost trade opportunities; our fear that any crisis in U.S.-Chinese relations that might result from denial of most-favored-nation status is too dangerous to risk; our concern that in any confrontation it is we, not they, who will be most likely to blink—these are all sizable cracks in our armor the Chinese can exploit, have exploited, and, indeed, are exploiting.

Thus one can only conclude that before we can conduct a successful strategy of compelling China to "play by the rules of the international system," in the words of Bob Dole, we will have to break our addiction to the China-market myth. And that can only come about if policymakers, economists, and businessmen begin to look at the hard truth and stop allowing their dreams of a gold rush to outweigh more vital concerns—not only America's strategic interests, but the basic liberties of more than a billion people living beneath the yoke.

Mr. SOLOMON. Thank you. Mr. Chairman, the main thrust of my argument today is that the policy of engagement with Communist China is a failed policy on all fronts, security and foreign policy, human rights and trade. The behavior of the regime in Beijing is worse today than it was a year ago and it is worse year by year by year. It never gets better. The argument that trade and engagement would modify the behavior of the Chinese Communists has once again failed to hold any water, and you all know it in this body here today. The examples of abhorrent and dangerous behavior by the dictatorship are too numerous to even cover completely, so I will name just a few here this morning and yield to some of my colleagues to further elaborate on them.

First, I am compelled to mention that as we speak, there is a vicious crackdown on dissent taking place in Tibet and we all ought to keep that in mind as we deliberate this issue and we ought to be ashamed of ourselves if we do not use everything in our power to do something about it. We must remember that we are talking about a Communist dictatorship that commits crimes against its own people every single day of the year.

Mr. Chairman, the People's Republic of China represents a growing threat to the national security interests of this country and you had better pay attention to that. Backed by its rapidly growing military power that has more than doubled in the last several years, the PRC has begun to throw its weight around in East Asia, bullying our democratic friends in Taiwan, and that was a disgrace, and acting aggressively in the Spratly Islands, and it goes on and on.

This should not have surprised anyone, Mr. Chairman. The People's Republic of China has been increasing its military budget by double digits for years now and has been making a concerted effort to increase its power projection capabilities. That is a fact. Take the time to research it.

We should be very concerned about recent purchases from Russia of SU-27 fighters. What do they need those for? And Kilo-class submarines—what do they need those for? And especially about the ongoing attempts to acquire SS-18 ICBMs from Russia. What do they need those for? Ladies and gentlemen, you had better think about it. What do we think that Communist China is going to do with these?

The SS-18 issue is especially provocative in light of the recent veiled threats by a PRC official to bomb Los Angeles. Can you imagine a superpower even saying such a thing? Just look at the recent nuclear bomb test that was similar to the bombs exploded in World War II. I think it was an 80-kiloton, which was equivalent to a 5.7 magnitude earthquake. That is pretty serious, ladies and gentlemen.

Turning to proliferation matters, what can we say? Even I, someone who actually expects Communist China to misbehave this way have been amazed at the number of cases of irresponsible proliferation policy on the part of the PRC in just the past few months, and I hope you all are following this. Hardly a day goes by when we do not read about things like Chinese nuclear ring magnet shipments to Pakistan. Have you read about that? Chemical weapons technology transfers to Iran—have you read about that? Cruise

missile shipments to Iran—have you read about that? Uranium processing technology to Iran, plutonium processing technology to Pakistan, and the list goes on and on.

Go upstairs in the Capitol to our intelligence briefings and just see what is going on, ladies and gentlemen, and I think every one of you would change your mind on this issue. These activities materially contribute to the proliferation of weapons of mass destruction, directly threaten U.S. troops in the Persian Gulf, violate arms accords the PRC has signed, and violate several provisions of U.S. law. How can we go along with countries that violate our own laws? Mr. Rangel, you spoke to it.

That brings me to this administration's policy toward Communist China, which, incidentally, is condoned by too many Republicans in this Congress, as well, and I will be critical of those Republicans. In addition to granting MFN, in addition to giving the PRC \$800 million of support through the Export-Import Bank in 1995, in addition to not opposing the \$4 billion in multilateral loans to China every single year to bring in slave-labor goods into this country that are produced by military-owned corporations, this administration has flippantly, in my opinion, refused in every case to apply U.S. law to these outrageous and dangerous cases of proliferation in the People's Republic of China.

What we have here, Mr. Chairman, is appeasement, pure and simple. They may call it "engagement," just as in the seventies they called it "detente," but it is the same thing and we have the same results, a totalitarian power running amok while showing absolute contempt for U.S. policy. I, for one, am not willing to take that, and why should not they?

In this atmosphere of appeasement, they know that they can get away with anything, from threatening our allies, which they have done, to spreading weapons of mass destruction, which they have done, to killing their own people, to destroying American jobs with mercantile trade practices. And it is the on the job issue that our China policy really hits home. I will let Ms. Pelosi and others speak to that more in detail.

But once again, our trade deficit with China has skyrocketed. It is over \$34 or \$35 billion now. It will hit \$40 billion before the year is out. What do you think that does to jobs in America? You had better think about it. Meanwhile, we continue to give China carte blanche in our markets with MFN.

This has got to stop, Mr. Chairman and my colleagues, and words will not stop it. Rhetoric will not stop it. Sitting down and talking will not stop it. They need to be shown. We have the economic power to bring pressure to bear on these tyrants and we ought to use it—250 million Americans with the strongest buying power in the world, that is what you use against them, and they will sit down and they will talk and they will come to their senses.

Terminating MFN is the first and best place to start, ladies and gentlemen. When the vast American market for Communist Chinese goods is shut off, believe me, these greedy dictators will start to show a little more flexibility. I urge the Subcommittee to give every consideration to this year's resolution of disapproval of MFN for China.

I would also like to lend my support to the legislation introduced by my friend, Mr. Cox, that is before your Subcommittee which would link MFN for China to Taiwan's entry into the World Trade Organization. That is only fair. I commend Mr. Cox for his creative approach to the problem with China and I am going to use every power I have in the Rules Committee to try to get that legislation forwarded out of your Subcommittee and to us and onto the floor.

I have introduced legislation which is currently before the Banking Committee that would attempt to deny multilateral loans to Communist China until they clean up their act and become responsible, good citizens expected of a world power like them.

The bottom line, Mr. Chairman, is the current situation begs for a China policy and I urge your firm support of this legislation to get it to the floor. I am sorry to have taken up so much time.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]

STATEMENT BEFORE THE WAYS AND MEANS TRADE SUBCOMMITTEE
ON CHINA MFN
REP. GERALD B. SOLOMON
JUNE 11, 1996

Mr. Chairman and members of the committee,

I have been coming before this committee so many years now to talk about this issue it seems like *deja vu*.

I think you all know my views on this issue, so I will be brief.

Mr. Chairman, the main thrust of my argument today is that the policy of engagement with Communist China has failed.

On all fronts....., security and foreign policy, human rights, and trade, the behavior of the regime in Beijing is worse today than it was a year ago.

The argument that trade and engagement will modify the behavior of the Chinese Communists has, once again, failed to hold any water.

The examples of abhorrent and dangerous behavior by this dictatorship are too numerous to cover completely, so I will name just a few.

First, I must mention that as we speak, there is a vicious crackdown on dissent taking place in Tibet, and we all ought to keep this in mind as we deliberate this issue.

We must remember that we are talking about a Communist dictatorship that commits crimes against its own people every day.

Mr. Chairman, we also must remember that the People's Republic of China represents a growing threat to the national security interests of this country.

Backed by its rapidly growing military power, the PRC has begun to throw its weight around in East Asia, bullying our democratic friends on Taiwan and acting aggressively in the Spratly Islands.

Most of all we should be very concerned about recent attempts to acquire SS-18 Intercontinental Ballistic Missiles from Russia, which could directly threaten the American people.

This is especially provocative in light of the recent veiled threats by a PRC official to bomb Los Angeles.

Turning to proliferation matters, well, what can we say?

Hardly a day goes by when we don't read about things like Chinese nuclear ring magnet shipments to Pakistan....., chemical weapons technology transfers to Iran....., cruise missile shipments to Iran....., uranium processing technology to Iran....., plutonium processing technology to Pakistan..... and the list goes on and on.

These activities materially contribute to the proliferation of weapons of mass destruction, directly threaten US troops in the Persian Gulf, violate arms accords the PRC has signed, and violate several provisions of US law.

Which brings me to our current policy toward Communist China.

In addition to granting MFN....., in addition to giving the PRC \$800 million of support through the Export-Import Bank in 1995....., in addition to not opposing the \$4 billion in

multilateral loans to China every year....., the administration has declined, in every case, to apply US law to these outrageous and dangerous cases of proliferation by the PRC.

This may be called engagement, just as in the 1970s it was called detente, but it is the same thing and we have the same results:

a totalitarian power running amok while showing absolute contempt for US interests.

And why shouldn't they? In this atmosphere of engagement at all costs, they know they can get away with anything, from threatening our allies to spreading weapons of mass destruction to killing their own people to destroying American jobs with mercantile trade practices.

And it is on the jobs issue that our China policy really hits home. Once again, our trade deficit with China has surged, and now stands at \$34 billion.

Mr. Chairman, China does not grant fair access to our goods, period.

Meanwhile, we continue to give China carte blanche in our market with MFN.

This has got to stop, Mr. Chairman. We must stand up for the American worker and American interests, and words won't do it.

We have the power, especially the economic power, to bring pressure to bear on these tyrants, and we ought to use it.

Terminating MFN is the first and best place to start.

When the vast American market for Communist Chinese goods is shut off, believe me, these greedy dictators will start to show more flexibility.

I urge the committee to give its every consideration to this year's resolution of disapproval of MFN for China which as I understand will be offered by my friend Mr. Rohrabacher.

I would also like to lend my support to the legislation introduced by Mr. Cox that is before your subcommittee which would link MFN for China to Taiwan's entry into the WTO.

I commend Mr. Cox for his creative approach to the problem of China.

I myself have introduced legislation which is currently before the Banking committee that would attempt to deny multilateral loans to Communist China.

The bottom line, Mr. Chairman, is that the current situation begs for a China policy, and I urge your fine subcommittee to give careful consideration to all of these proposals.

I thank the Chairman and the subcommittee for the time.

Chairman CRANE. Thank you for your testimony.
Mr. Kolbe.

**STATEMENT OF HON. JIM KOLBE, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF ARIZONA**

Mr. KOLBE. Thank you, Mr. Chairman.

My remarks will be very short. This is kind of *deja vu*. We seem to have this same cast of characters every year before this Subcommittee. But it is important, and I do appreciate the opportunity to testify. I also commend you, Mr. Chairman, and this Subcommittee for holding these hearings. It is important that we have these hearings on the issues related to United States-China trade.

Our economic stake in maintaining trade relationships with China, is widely known. So, I am going to limit my very brief remarks today to the effect which denying China's most-favored-nation trade status would have on the issue which polarizes Congress every year at this time, and that is the issue of promoting human rights in China.

I strongly support the President's decision to renew most-favored-nation status for China, a decision which is also supported by our likely Republican nominee, Senator Dole. I do so because I firmly believe that the single most effective tool we as a nation possess to advance the cause of human rights in China is our power to influence, and our power to influence changing political conditions in China, is tied very directly to our continued economic engagement with them.

I disagree with my colleague, the very distinguished Chairman of the Rules Committee, Mr. Solomon, when he says that nothing has gotten better. Can anyone deny that conditions are certainly better than they were during the bizarre years of the cultural revolution of the sixties and seventies, when thousands of people were executed? It is a much more open society today in China than that.

It is because our ability to influence conditions in China is tied to our economic engagement that renewal of unconditional MFN is so critical. We cannot retreat. We cannot hide from the challenges that face the United States-China relationship, some of which have been outlined by my colleague here this morning.

We have to use our economic influence to promote meaningful change within China. Every day and in every way that we engage China in trade, we are transforming Chinese society from within. History has demonstrated this time and again, whether it has been in Korea, whether it has been in Taiwan, whether it has been in Chile, that economic growth and prosperity does lead to political freedom. History also teaches us that isolationism and economic stagnation lead to repression, and North Korea, is a case in point there.

If we revoke or limit our trade with China, we are going to be diminishing our ability to promote change in that country. U.S. economic sanctions would harm the emerging Chinese private sector and the dynamic market-oriented provinces in Southern China, which are remarkably different from the rest of China and which are the most heavily dependent on trade. This would weaken the

very forces in Chinese society that are pressing the hardest for real change in that country.

Perhaps most important, we ought not to forget the impact denial of MFN would have on the fledgling democracies of Taiwan and Hong Kong, the latter of which next year will be coming under the Chinese flag. For them, and they have been very clear on this, loss of MFN for mainland China would be catastrophic and lead to economic chaos at a critical juncture in their political history.

The United States must remain engaged in China, Mr. Chairman. We must continue our daily struggle to promote freedom, individual liberty, and the institutions of democracy in that country. Only through engagement are we going to have influence, and only through influence are we going to promote change.

So, I strongly urge this Subcommittee to keep us engaged by recommending renewing unconditional MFN for China, and I thank you, Mr. Chairman, for the opportunity to testify.

[The prepared statement follows:]

Thank you very much for the opportunity to testify today. I commend this Subcommittee for holding hearings on the important issues related to United States-China Trade. Our economic stake in maintaining trade relationships with China is well known. Therefore, I will limit my testimony today to the effect which denying China's Most-Favored-Nation trade status would have on the very issue which polarizes Congress every year at this time—the promotion of human rights in China.

I strongly support the President's decision to renew Most-Favored-Nation status for China. I do so because I firmly believe that the single most effective tool we as a nation possess to advance the cause of human rights in China is our power to influence. Just as important, our influence on changing political conditions in China is tied directly to our continued economic engagement with them. Can anyone deny conditions are better than during the bizarre years of the cultural revolution of the 1900s and early 1970s.

That is why the unconditional renewal of MFN is so critical. We cannot retreat and hide from the challenges facing U.S.-China relations. We must use our economic influence to promote meaningful change within China. Every day and in every way that we engage the Chinese in trade, we are transforming Chinese society from within. History has demonstrated this time and time again—whether in Korea, in Taiwan, or in Chile—that economic growth and prosperity leads to political freedom. History also teaches us that isolationism and economic stagnation lead to repression. North Korea is a case in point.

If we revoke or limit our trade with China we will be diminishing our ability to promote change. U.S. economic sanctions would harm the emerging Chinese private sector and the dynamic market-oriented provinces in Southern China, which depend on trade. This would weaken the very forces in Chinese society pressing hardest for economic trade. Perhaps most important, we should not forget the impact denial of MFN would have on the fledgling democracies of Taiwan and Hong Kong. For them, loss of MFN for mainland China would be catastrophic, leading to economic chaos at a critical juncture in their political history.

The United States must remain engaged in China. We must continue our daily struggle to promote freedom, individual liberties, and the institutions of democracy in China. Only through engagement can we have influence, and only through influence can we promote change. I strongly urge this Subcommittee to keep us engaged by recommending renewing unconditional MFN for China.

Thank you again for the opportunity to testify today.

Chairman CRANE. Thank you, Mr. Kolbe.

Ms. Pelosi.

STATEMENT OF HON. NANCY PELOSI, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Ms. PELOSI. Thank you very much, Mr. Chairman. Mr. Rangel, happy birthday. Members of the Subcommittee, thank you for the opportunity to be here today.

We can all agree that the United States-China relationship is an important one and that we look forward to a brilliant relationship with the Chinese people economically, diplomatically, politically, and culturally. At the same time, I believe that in our international relationships we must strive to make the world safer, people freer, and trade fairer. On none of those scores does our United States-China policy measure up.

I know that many Members of the Subcommittee believe that trade should not be linked to violations of human rights and proliferation. I disagree. However, I am going to focus my remarks today strictly on the economics of our United States-China trade policy and relationship.

If we consider the United States-China relationship solely on economic grounds, China should not receive unconditional MFN for three reasons: Lack of market access to U.S. products, violation of intellectual property rights, and the transfer of technology and production to China.

While I intend to discuss trade, I do want to mention the name of Bao Tong, a courageous dissident in China who was released from prison after serving his 7-year sentence on May 27, but is now under house arrest. I wish to associate myself and those of my colleagues who work in the daily struggle for human rights in China with his challenge to the President of China and the Politburo. Mr. Bao charges them with taking the law into their own hands, by preventing a prominent voice of party reform and democracy from emerging lawfully. Even the State Department's Country Report for 1995 says that economic reform has not led to political reform in China.

But back to the trade issues, lack of market access, violation of intellectual property rights, and technology transfer. The Chinese government allows only a handful of industries and their products into China, primarily telecommunications, fertilizer, aerospace, grain, and some technology. Most goods and services made in America or developed in America are not allowed there. The emphasis of supporters of unconditional most-favored-nation status to China is always on U.S. exports to China.

I would like to call to the attention of the Subcommittee the growth of the exports and imports in the past 10 years. It has tripled. At the same time the imports from China have increased 11 times, leading to a \$35 billion trade deficit. The trade deficit is expected to exceed \$40 billion in 1996. This is, in one way, attributed to lack of market access for U.S. products.

Another alarming aspect of this trade is the 4-to-1 ratio of what we buy from China to what they buy from us. The Chinese ship one-third of their products as exports to the United States. We export 2 percent of our products into China. Because of lack of market access, we cannot export more.

Many people who promote MFN for China unconditionally point to the number of U.S. jobs tied to United States-China trade. I have another chart which I want to call to Members' attention that is with my statement. We have a \$57 billion trade relationship with China. If you take a comparably sized trade relationship and look at the number of jobs generated, you will see that we have a real problem here.

According to President Clinton's statement accompanying his request to renew MFN, exports to China support 170,000 American jobs. It is, therefore, interesting to note the following. United States trade with the United Kingdom is \$55.7 billion and it supports 432,000 American jobs, two-and-a-half times more than United States-China trade. United States-West German trade totaled \$59 billion in 1995 and supported 336,000 U.S. jobs. United States-South Korean trade totaled \$49 billion in 1995, almost \$10 billion less than the United States-China trade, and supported 381,000 American jobs, over twice as many as the United States-China trade. I hope you will study these numbers and take pause as you see what our lack of market access is doing to this trade relationship.

As you have heard the \$2.3 billion in losses due to the violation of our intellectual property rights does harm to the American economy. That \$2.3 billion is not even included in the trade deficit that I mentioned. This Subcommittee is well aware of the movies, music, and software theft that China is engaged in, so I will not go into detail on that except to say that I am pleased that Mr. Rangel is a cosponsor of my bill, which states that the Chinese must live up to the agreement, not just agree, but must live up to the intellectual property rights agreement, or the President must issue sanctions. So, the President must issue sanctions under that bill unless China lives up to the agreement. No more agreements. The must live up to already existing agreements.

We are told regularly by economists and labor force specialists that the future of our economy is our intellectual property, the genius that rises from the great American freedom of expression and freedom of thought. In that real way, with their continuing patterns and practice of theft of our intellectual property, the Chinese are stealing our economic future.

Last, Mr. Chairman, in my statement, I go into some of the problems about intellectual property theft, the most significant of which is that it is largely for export. The United States is competing with its own intellectual property pirated by the Chinese for export from China to the rest of the world.

I support the administration's decision to publish a preliminary sanctions list and commend U.S. Trade Representative Charlene Barshefsky and Deputy Trade Representative Lee Sands for their unrelenting efforts to protect U.S. intellectual property rights.

My last point is on technology transfer. We must be concerned about the harm to our economy of the technology transfer and production which is accompanying U.S. sales to China. The Chinese government demands that American companies wishing to obtain access to the Chinese market, because most products made in the United States do not have access, must not only build factories there but also transfer state-of-the-art technology in order to do so. The government then misappropriates that technology to build China's own industries. The companies have little choice, in light of the high tariffs for U.S. products to reach the Chinese marketplace.

A recent Washington Post article entitled "A China Trade Question: Is It Ready for Rules?" states that, 'As vital as the Chinese market is, the appropriation of foreign technology by the Chinese poses a serious problem for the industrialized world, much more serious than CD pirating', said Kenneth DeWoskin, a professor at the University of Michigan. 'Think of telecommunications, automotive, and electronics, as very high technological chemicals. There is enormous value in that technology. You are talking about billions of dollars. When you provide technology to your Chinese venture, it has to be certified by the Engineering and Design Institutes, whose job it is to disseminate technology to domestic Chinese ventures.'

The Chinese Government is building its own industries to the detriment of the long-term vitality of our industries, and we are not only letting them do so, we are encouraging this practice.

I call to the attention of the Subcommittee this report, "Jobs on the Wing," by the Economic Policy Institute. It reports about the fact that the Chinese aerospace industry already employs 500,000 workers manufacturing planes in China and pays them an average of \$50 a month. In one example, China is working closely with McDonnell-Douglas, assembling Western-designed commercial MD-82-Ss, a co-production deal. It is expected to dramatically increase Chinese content, reportedly up to 85 percent by the end of the year. I also call to your attention, once again, the fact that the 737 rear fuselage and tail sections which American workers produced for Boeing are now being produced in Xian, China, by workers who earn \$50 a month.

The Chinese Government's industrial policy of targeting certain U.S. industries is by no means limited to aerospace, and I go into more detail in my statement. In the interest of time, I will skip over that right now, but it relates to General Motors and other automobile manufacturers opening plants there to make parts, directly stealing high-paying jobs from American workers.

Technology and production transfer can only result in a loss of an increasing number of American jobs as we lose our job-intensive industries to a cheaper, more manipulable work force.

Finally, since this hearing is about MFN, I will say that the annual review for MFN for China can give Congress and the administration increased leverage with the Chinese Government. I believe it is important to review the state of the United States-China relationship on an annual basis. During the debate, we gauge most whether U.S. policy is making trade fairer, people freer, and the world safer. It is a useful legislative vehicle to see if we are making progress in these areas. One-third of China's exports come to our country. Only 2 percent of our exports are allowed in their country. China will not walk away from the U.S. market access they desperately need.

Until the Chinese government plays by the rules, we should not grant China unconditional most-favored-nation status. I will repeat one more time that the current policy, which tolerates lack of market access, piracy of our intellectual property, and the transfer of our technology to China does damage to our economy, undermines our commitment to promoting democratic freedoms, and threatens our National security. It does harm to the American worker, and on that basis alone, China should not receive most-favored-nation status.

Thank you very much, Mr. Chairman.

[The prepared statement and attachments follow:]

Representative Nancy Pelosi

Subcommittee on Trade
Hearing on MFN for China

June 11, 1996

Chairman Crane and Members of the Subcommittee on Trade, thank you for the opportunity to appear before you today.

We can all agree right from the start that the U.S.-China relationship is an important one and that we look forward to a brilliant future with the people of China, politically, economically, diplomatically and culturally. At the same time, I believe that in our international relationships, we must strive to make the world safer, people freer, and trade fairer.

As you know, there are serious concerns in Congress about a number of aspects of the U.S.-China relationship. These concerns fall into the broad categories of trade, proliferation, and human rights. I know that many of the members of this Committee believe that trade should not be linked to violations of human rights and proliferation. I disagree. However, even if we consider the U.S.-China relationship solely on economic grounds, China should not receive unconditional MFN.

I will focus my remarks on some Congressional concerns about the economics of the U.S.-China relationship. The picture, I am afraid, is not a good one, particularly in light of the lack of access to the Chinese market for the vast majority of U.S. goods and services. In my statement I will discuss the trade deficit, intellectual property rights violations, technology and production transfer, and MFN.

While I intend to discuss trade, I would first like to bring to your attention a situation of immediate and pressing concern in China today. This should be of particular interest to those who support unconditional MFN and "commercial engagement" arguing that their way spurs political reform and helps political reformers.

One of China's most important reformers is Bao Tong, a former advisor to Zhao Ziyang, the Communist Party chief sacked on the eve of the June 1989 crackdown. At that time, Bao was charged with leaking "state secrets" and imprisoned for seven years. He served his entire prison term and was released on May 27, but is now under house arrest under close guard at a guest house near Beijing.

It appears that the Chinese authorities are refusing to allow Bao Tong to return to his home and, according to this morning's New York Times, are preparing instead to keep Bao Tong and his family under permanent house arrest, in internal exile, without access to the telephone, to doctors or to lawyers. The Chinese police have reportedly told Mr. Bao they want him and his family members to agree to relocate to an unspecified new home to live in what Mr. Bao called a "cage" of police supervision and indefinite house arrest. This information is based on a letter by Bao Tong smuggled out of China.

The Administration and the business community should exercise their commitment to supporting reform in China by speaking out now on behalf of Bao Tong.

Now, I would like to present some basic facts on the U.S.-China trade relationship in three areas: lack of market access, intellectual property rights and technology transfer.

Lack of market access:

The Chinese government only allows into China a limited list of U.S. products -- primarily telecommunications, fertilizer, aerospace, some engineering, and grain -- and bars market access for most other U.S. goods and services. The emphasis of supporters of unconditional Most Favored Nation (MFN) status for China is not unexpectedly on U.S. exports to China. To understand the U.S.-China economic relationship, however, we must look at how trade has grown in both imports and exports.

While overall, U.S. exports to China have tripled in the last ten years, U.S. imports from China have grown eleven times, resulting in a trade deficit with China that has grown from \$10 million in 1985 to \$34 billion in 1995. In 1985 China was our 70th largest deficit trading partner; it is now our second largest deficit trading partner, second only to Japan. At the current rate, the U.S. trade deficit with China will likely surpass \$41 billion in 1996 and will, within a matter of a few years, surpass our trade deficit with Japan.

Another alarming feature of this trade pattern is the four-to-one ratio of what we buy from China as to what they buy from us.

The U.S. is China's largest export market, with over one-third of their exports coming to our country. Less than 2% of U.S. exports go to China. At the same time, U.S. exports to other East Asian markets surpass our exports to China. In 1995, for example, U.S. exports to Taiwan, with 21 million people were \$19 billion (supporting 288,000 U.S. jobs) and to China, with 1.2 billion, were under \$12 billion.

One of the oft-cited statistics of those who favor unconditional renewal is the size of the overall U.S.-China trade relationship, which reached \$57 billion in 1995. If we look at other trade relationships of comparable size, we will see that far more jobs here in the United States result from exports to other countries than from exports to China. These job statistics are based on the standard formula that every \$1 billion in U.S. exports supports about 15,000 jobs.

According to President Clinton's statement accompanying his request to renew MFN, "U.S. exports to China support 170,000 American jobs..." It is therefore interesting to note the following:

- * United States-United Kingdom trade totalled \$55.7 billion in 1995 and supported 432,000 American jobs, two and one-half times more jobs than U.S.-China trade.
- * U.S.-West German trade totalled \$59 billion in 1995 and supported 336,00 American jobs.
- * U.S.-South Korean trade totalled \$49.5 billion in 1995 and supported 381,000 American jobs, over twice as many as U.S.-China trade.

The numbers of jobs supported by U.S.-China trade are important, yet they must be seen in the larger context of jobs lost through lack of market access, violations of intellectual property rights and technology and production transfer.

Intellectual Property:

We should all be concerned about the harm to our economy of the ongoing practice by the Chinese of violating our intellectual property rights, which is estimated to have cost the U.S. economy over \$2.3 billion in 1995. The trade deficit and jobs numbers do not include the impact on the U.S. economy of Chinese piracy of U.S. software, CD's, videos, pharmaceuticals, books, movies and music.

We are told regularly by economists and labor force specialists that the future of our economy is our intellectual property -- the genius that arises from our great democratic tradition of freedom of expression and freedom of thought. In that very real way, with their continuing patterns and practices of theft of our intellectual property, the Chinese are stealing our economic future.

In China, it is possible to buy \$12,000 of pirated U.S. software on a CD-ROM for \$10. Pirated versions of Windows'95 were available in China as the real thing was released in the U.S. Most of the production of stolen intellectual property in China is not for Chinese domestic consumption. Our IP is being stolen and produced mostly for export. China's domestic consumption capacity of CD's is only 7 million annually -- and its CD production capacity is currently 150 million units per year.

The piracy does not stop at software. There are reports of pirated raw materials -- like integrated circuits from China -- showing up in Paraguay for distribution throughout the Americas. China's piracy of our intellectual property, while barring access for U.S. products to China's market, robs American workers of jobs and undermines our global competitiveness.

I support the Administration's decision to publish a preliminary sanction list and commend U.S. Trade Representative Charlene Barshefsky and Deputy U.S. Trade Representative Lee Sands for their unrelenting efforts to protect U.S. intellectual property rights.

Technology transfer:

We must also be concerned about the harm to our economy of the technology transfer and production transfer which is accompanying U.S. investment in China and U.S. sales to China.

The Chinese government demands that companies wishing to obtain access to the Chinese market not only build factories there, but also transfer state-of-the-art technology in order to do so. The government then misappropriates that technology to build China's own industries. The companies have little choice, in light of the high tariffs for their products to reach the Chinese marketplace.

A recent Washington Post article, "A China Trade Question: Is It Ready for Rules?" (May 19, 1996), states that

as vital as the Chinese market is, the appropriation of foreign technology by the Chinese poses a serious problem for the industrialized world -- "much more serious than CD pirating," said Kenneth DeWoskin, a professor at the University of Michigan and adviser with Coopers & Lybrand's China consulting business. "Think of telecommunications, automotive, electronics, very high technology chemicals -- there's enormous value in that technology. You're talking hundreds of billions of dollars."

DeWoskin continued,

"When you provide technology to your Chinese venture, it has to be certified by one of these research and design institutes," he said, "But unfortunately, those are the same institutes whose job it is to disseminate technology to domestic ventures."

The Chinese government is building its own industries to the detriment of the long-term vitality of our industries and we are not only letting them do this, we are encouraging them in this practice.

The aerospace industry is an excellent example of the pattern of technology and production transfer. According to a 1995 study by the Economic Policy Institute, Jobs on the Wing, the Chinese aerospace industry already employs 500,000 workers manufacturing planes in China -- and pays them an average of \$50 a month. One example: China is working closely with McDonnell Douglas assembling Western-designed commercial aircraft, MD-82s, in a coproduction deal. The coproduction of MD-90 "Trunkliners," is expected to have dramatically increased Chinese content, reportedly up to 85% by the end of the production run. Several years ago, Boeing shut down a plant in Wichita, Kansas -- the 737 rear fuselage and tail sections which American workers produced are now being produced by workers in Xian, China, who earn \$50 a month.

The Chinese government's industrial policy of targeting certain U.S. industries is by no means limited to aerospace. General Motors, for example, has plans to build parts plants in China -- plants which it is believed will produce auto parts for export and will displace American autoworkers.

I understand the position of any given business on the U.S.-China relationship. Each business is, after all, concerned for its own bottom line. But we here in Congress are supposed to have a broader view -- someone is supposed to keep their eye on the public interest, on the bigger picture -- and the bigger picture here is neither a pretty nor an encouraging one.

Technology and production transfer can only result in the loss of an increasing number of American jobs as we lose our job-intensive industries to a cheaper and more manipulable labor force. The belief that we have only lost and are only losing our low-wage, low-skilled jobs to China is a completely fallacious one. The Chinese government is carefully and calculatedly building its own economic future by acquiring overtly and covertly, legitimately and illegally, our technology, our production, and our genius, the very blueprints of our economy.

Finally, since this hearing is about Most Favored Nation status for China, I will say that the annual review of MFN for China can give the Congress and the Administration increased leverage with the Chinese government. I believe it is an important opportunity to review the state of the U.S.-China relationship. During the debate, we must gauge whether U.S. policy is making trade fairer, people freer, and the world safer. We must retain the legislative vehicle of MFN as a tool to make significant progress in these areas. One-third of China's exports come to our country, and the Chinese government will not walk away from the U.S. market access which they so desperately need. The current policy of unconditional renewal does damage to our economy, undermines our commitment to promoting democratic freedoms, and threatens our national security.

Until the Chinese government plays by the rules, we should not grant China unconditional Most Favored Nation status.

U.S. Merchandise Trade with China: 1985-1995

(\$Millions)

Year	U.S. Trade Balance	U.S. Exports	U.S. Imports
1985	- 10	3,852	3,862
1986	- 1,666	3,105	4,771
1987	- 2,805	3,488	6,293
1988	- 3,479	5,033	8,512
1989	- 6,181	5,807	11,989
1990	- 10,417	4,807	15,224
1991	- 12,698	6,278	18,976
1992	- 18,309	7,418	25,727
1993	- 22,768	8,767	31,535
1994	- 29,494	9,287	38,781
1995	- 33,807	11,748	45,555

Source: U.S. Department of Commerce

Aggregate 1995 trade data by country

Country Name	Trade Balance	Exports	Imports	U.S. Support (1995)
West Germany	59,223,101,999	22,376,431,993	36,846,670,006	336,000
China	57,303,878,400	11,748,446,559	45,555,431,841	175,500
United Kingdom	55,718,066,628	28,826,885,373	26,891,181,255	432,000
South Korea	49,596,881,638	25,413,200,508	24,183,681,130	381,000

Note: Every \$1 billion U.S. Exports supports about 15,000 jobs

Source: U.S. Department of Commerce, U.S. Trade Representative

U.S.-China Trade: The Status Quo

1995 Trade deficit: \$34 Billion

Tariffs:

Avg. U.S. MFN tariff on Chinese goods: 2%

Avg. Chinese MFN tariff on U.S. goods: 35%

Exports:

% of U.S. Exports allowed into China: 2%

% of Chinese Exports to the U.S.: 33%

Jobs:

Chinese jobs supported by U.S. trade: 10,000,000

U.S. jobs supported by Chinese trade: 170,000

Trade Growth:

Exports to China have grown: 3 Times

Imports from China have grown: 11 Times

Representative Nancy Pelosi

**USTR 1996 "SPECIAL 301" DECISIONS AND IIPA ESTIMATED TRADE LOSSES DUE TO
COPYRIGHT PIRACY (1995)**
(in millions)

	Motion Pictures	Records & Music	Computer Software business	entertainment	Books	Losses TOTAL
PRIORITY FOREIGN COUNTRY						
People's Republic of China	124.0	300.0	488.0	1286.0	125.0	2323.0
PRIORITY WATCH LIST						
Argentina	49.0	15.0		64.7	7.0	135.7
Greece (OCR, September)	59.8	6.0		20.8	5.0	91.6
India (WTO)	58.0	10.0		25.8	25.0	118.8
Indonesia	15.0	2.0		82.6	45.0	144.6
Korea	17.0	6.0		173.6	25.0	221.6
Turkey (WTO, GSP pending)	57.0	8.0		86.5	18.0	169.5

New York Times
June 11, 1996

Former Official, Under Detention, Issues Rare Challenge to China

By PATRICK E. TYLER

BEIJING, June 10 — The only senior Communist Party leader imprisoned after the 1989 pro-democracy uprising here today publicly challenged the basis for his continued detention at a remote police hide-away with no access to a lawyer, a doctor or a telephone.

The former official, Bao Tong, 63, completed a seven-year sentence on May 27 and has since been held under close guard at a guest house in the hills west of Beijing. Now, Mr. Bao says in a letter dated today, he has been informed by police authori-

ties that he may never be allowed to go home.

Instead, the police said they want Mr. Bao and his family members to agree to relocate to an unspecified new home to live in what Mr. Bao called a "cage" of police supervision and indefinite house arrest.

"In this cage, there is no law, there is no lawyer, there is no doctor, there is no telephone and there is no time limit," Mr. Bao wrote in the letter, which was smuggled out of China and made public by human rights organizations. Mr. Bao and his family members have told the police that

their actions are illegal.

Mr. Bao's letter represents a direct and open challenge to President Jiang Zemin and the Politburo, which is supervising Mr. Bao's case. He has accused them of taking the law into their own hands to prevent a prominent voice of party reform and democracy from lawful emergence.

Mr. Bao was the principal aide to the reform-minded Communist Party leader Zhao Ziyang, who was ousted over his refusal to approve the martial-law crackdown on student demonstrators in 1989.

Chinese legal experts said tonight

that there seemed to be no legal basis for preventing a prisoner who has completed his term from returning to his home or from consulting a lawyer or a doctor. Family members say Mr. Bao has a low white blood cell count that makes him vulnerable to any infection.

"Bao Tong served his sentence right up until the last day and yet he is not free," said Robin Munro, the Hong Kong director of the New York-based Human Rights Watch. "They didn't do this in the past with prominent political prisoners. What are they afraid of?"

Chairman CRANE. Thank you, Ms. Pelosi.

Mr. Shaw.

Mr. SHAW. Thank you, Mr. Chairman.

I am a little concerned that coming into this debate is the imbalance of trade. If that were a consideration in our vote here today, then we should be talking to Korea and we should be talking to Japan. We should be talking to many of our trade partners.

I do not think that is a consideration, and I think that to try to inflame the Congress because of the imbalance of trade is really going in the wrong direction and is bringing something before this Subcommittee that is totally irrelevant to the debate that we are having here.

Ms. PELOSI. May I respond?

Mr. SHAW. Also, in thinking about what has happened in China over the last 15 to 20 years, the freedoms and the progress that China has made can be attributed to the many business people throughout the world who have invested in China, and we find that coming from a totally structured economy, we see it opening up to parcels of capitalism.

The capitalism that has taken place in that country, and we have seen it in Shanghai and particularly down in the south end of China, has brought about the freedom of the Chinese to be able to move. They no longer are completely dependent upon the state for jobs and, therefore, kept within their own community. So they are enjoying freedom, greater freedom of motion. There are things that are happening for them.

We can sit here all day and agree that there are abuses of human rights in China. There is no question about it, and I am in total agreement with that. But do we really, as the economic power of the world, want to shut off a country that is composed of such a high population, and is composed of such a growing economy? Do we want to penalize ourselves and the workers in this country by doing this? Do we want to further punish the Chinese by cutting off any hope they have for freedom?

The generator of what progress they have made is not attributed to their leaders, it is attributed to trade. Trade is what is making the difference, and we may not be satisfied with the progress that we have made, but do we really want to step back in time? Do we really want to cut off China's most-favored-nation status in a year when we are seeing Hong Kong coming into this mix? Do you see our cutting off Hong Kong, as well?

This is where I would like to focus my attention to Mr. Solomon and Ms. Pelosi. Do you feel that Hong Kong would be an exception or do you feel that Hong Kong also would be cutoff? Mr. Solomon?

Mr. SOLOMON. Let me respond first, Mr. Shaw, by saying I was a little surprised to hear you say that trade is not the issue that is before us on this bill.

Mr. SHAW. I said the balance of trade is not.

Mr. SOLOMON. Let me just say, I have spent the last several months defending your Subcommittee against those other standing Committees that would like to usurp your authority on the trade issues, the Foreign Affairs Committee, the National Security Committee—

Mr. SHAW. I do not think that is an issue, either, Mr. Solomon, but for that we are very grateful.

Mr. SOLOMON. So, we want to continue to defend your rights on the issue of trade.

Mr. SHAW. Thank you.

Mr. SOLOMON. However, let me just say something to you. There is nothing like the buying power of the American people. We do have the highest standard of living in the world, and we ought to be using it.

American foreign policy, whether there is a Republican or a Democrat in the White House, has always been to defend and encourage democracies around the world but never to insert ourselves militarily. But, we can use our buying power in this world to correct this problem.

I can tell you right now that we are being discriminated against. The General Electric Co. is being discriminated against in selling their steam turbines to China and other countries. We need to sit down. We need to use that buying power. Your Subcommittee can do it.

We would not be cutting off MFN for China indefinitely. You can do it for 30 or 60 days, or for 3 months. If you did it for 1 day, you would see them come rushing to the table and we would resolve a many of these problems and it would result in Chinese people being treated like decent human beings in the future, and that is what this is all about.

Mr. SHAW. Ms. Pelosi.

Ms. PELOSI. If I may respond, Mr. Shaw, you asked some very—

Mr. SHAW. If you could comment on what to do about Hong Kong, I would appreciate it.

Ms. PELOSI. Yes, I will be pleased to do that, but first, I want to address your statement about the deficit. You said you did not think it was appropriate for us to bring up the trade deficit as an issue. I disagree, respectfully, and want to call to your attention the growth of the trade deficit. Actually, we have been having this debate for 7 years but this chart shows it for the last 10 years.

Mr. SHAW. I understand that, but is it part of the Jackson-Vanik? Is it involved in that? Is that supposed to be involved? Look at the statute. Does the statute say anything about the balance of trade? I think not. I think it talks about human rights.

Ms. PELOSI. When we talk about human rights, you say they should not be linked. But I want to emphasize the trade deficit, because the fact that we lack market access into China is a very significant reason why the deficit has grown. While our exports to China have grown over the last 10 years 3 times, the imports from China to the United States have grown 11 times.

Accompanying the lack of market access and the high tariffs of our products, if they were allowed into China, is the transfer of technology, people who want to build factories there must transfer their technology. The technology is then misappropriated into other Chinese industries.

This Subcommittee has a responsibility to the American economy and to the American work force. We cannot hide behind chapter and verse of a bill to say that we will not consider what is happen-

ing in this trade relationship when Members of this Subcommittee and those who advocate not using MFN as a tool always point to the number of U.S. jobs that are tied to United States-China trade, indeed, they are doing so even here this morning.

You mentioned South Korea, I have a chart that I handed out with my statement which points to the fact that our trade relationship with South Korea is almost \$50 billion. China's is \$57 billion. The number of jobs that spring from the United States-China relationship are 175,500 jobs—

Mr. SHAW. Reclaiming my time, which has expired, long expired—

Ms. PELOSI [continuing]. While the number of jobs that spring from South Korea are 381,000. We are, indeed, just about in balance with South Korea.

Mr. SHAW. Ms. Pelosi, I have asked a question which has not been answered and my time has expired.

Mr. SOLOMON. Mr. Shaw, could I respond in one sentence?

Mr. SHAW. In closing, I would like the record to be very clear that the legislation about which this hearing is being held talks about human rights as reflected in the immigration policy of China and it does not speak to these other things that maybe we should have hearings on on a global basis, but it is not a subject of this hearing. Thank you.

Chairman CRANE. Mr. Houghton.

Mr. SOLOMON. Mr. Shaw, would you yield just for a one-sentence answer to your question? You had proposed the question to me. I guess I did not specifically answer it, but we all know that Hong Kong does not become a part of China until next year. It is irrelevant to the cutoff of MFN this year.

Ms. PELOSI. Further to Mr. Shaw, I think that MFN is not going to be cutoff. You know there is no chance of overriding a Presidential veto. But everyone who tells you that, because of Taiwan and Hong Kong, we should not revoke MFN, many of those same people say to us, keep up the debate. They know MFN is not going to be revoked.

Chairman CRANE. Mr. Houghton.

Mr. HOUGHTON. Thank you, Mr. Chairman.

China is a better friend than it is an enemy. Therefore, how can we maintain our friendship and develop it over the years without using a sledgehammer? Obviously, we are not going to disavow Japan and take away their most-favored-nation status, and if I understand it correctly, in 1974 with the Jackson-Vanik amendment, they took the nonmarket economies and lumped them together.

But very similar conditions, irrespective of the technical reasons there, exist with Japan and China. We have a trade deficit, I would imagine, between \$40 and \$60 billion year after year after year with Japan, but we are not thinking of extracting ourselves from that particular relationship. So, there must be other ways of getting at this rather than falling back on the most-favored-nation situation.

Also, there was a man called Pei, Professor Minxin Pei of Princeton University, who indicated that—and he was a member of the group that was there in Tiananmen Square. He said the institutional foundations of a genuine democracy are slowly taking shape,

so the question is, how do we help them foster it, without being rather abrupt and unnecessarily decisive as far as the most-favored-nation issue?

Ms. PELOSI. Is it to me? I thank the gentleman for his very comprehensive question.

First of all, getting to your first point about China being a better friend than an—did you use the word adversary or enemy? I started my remarks by saying that we look forward to a brilliant future with the Chinese people in every way and that it is an important relationship. Let me also say that without putting a scale out there to say whether it is better or worse, China is engaged in activities in violation of many of our agreements, whether they relate to the proliferation of weapons of mass destruction, the transfer of nuclear technology to unsafeguarded states, or the transfer of cruise missiles and other missile technology to unsafeguarded states, making the world a less safe place.

At the same time the United States has an embargo on Iran and it wants to have a secondary boycott on countries doing business with Iran, we turn our head away from the transfer of cruise missiles by China—and this is undisputed, this is not even in doubt—to Iran, as well as to other dangerous technologies.

In terms of human rights and Jackson-Vanik, and this addresses something Mr. Kolbe said about the Cultural Revolution, what we should be comparing China's human rights situation to is not the cultural revolution—we were not engaged then—but to the last 10 years, when we have had this policy of engagement. In that period of time, even by the State Department's own Country Report, economic reform has not led to political reform.

So, while I know that this Congress is not going to cut off most-favored-nation status to China, I believe that it would be in the best interest of those who criticize the annual debate to come up with some alternative. I think the burden is with those who say, let us not use this for leverage.

I believe that if the Chinese ever thought for 1 minute that their access to the U.S. market for one-third of their exports was in jeopardy, it would have a positive impact on the rights of freedom and the rule of law in China. Right now, the rule of law in China does not exist, and that is not helpful to U.S. companies trying to do business there. The chickens will come home to roost, and unfortunately, the American workers are the ones who are going to have to pay the price.

Mr. HOUGHTON. If I could just interrupt a minute, Ms. Pelosi, I guess there are three basic issues here. One is trade, the other is weapons, and the third is human rights. It seems to me that they are all important, they affect all of us in our daily lives, and they should be looked at, but rather than throwing the whole cloak of most-favored-nation over it, can we not deal with those as we do with other countries, on an individual basis?

Ms. PELOSI. Mr. Houghton, each year, since the Tiananmen Square massacre, many of us have proposed alternatives to revocation of MFN. Mr. Solomon has been the leader in the revocation fight, but many of us have proposed conditional renewal with very generous opportunities for China to make overall significant progress. We proposed targeted revocation on products made by the

People's Liberation Army because of the smuggling, and at that time legal but inappropriate sale of weapons into the United States. As you know, the smuggling continues. We were trying, at the time, to get at those businesses that were owned by the Chinese military.

We have proposed discrete and targeted approaches which have not been accepted by opponents to revocation of MFN. We have tried for many years, tabling the MFN issue, and instead supporting a framework for diplomatic relations with China, but that was not embraced by those who oppose MFN for China. Some Members of Congress voted for it but that did not help us get it through the Senate, and therefore that legislation did not exist. So, we have tried for more discrete approaches, but they have not been well received.

To address Mr. Shaw's question about Hong Kong. The people in Hong Kong, of course depend on MFN, but they also depend on our speaking out each year using as much leverage as possible for democratic reform. None of us wish to be associated with the diminishing of human rights and freedom in the parts of China that it does exist, Hong Kong and Taiwan.

Chairman CRANE. I want to thank the witnesses for their testimony. We have at least one vote coming up, so the Subcommittee will stand in recess until either the one or two votes are behind us, and then we will call upon our next panel to testify. I want to thank you all for your testimony.

Ms. PELOSI. Thank you, Mr. Chairman.

[Recess.]

Chairman CRANE. Will everyone please be seated.

I want to welcome Ambassador Barshefsky and Ambassador Lord. We are looking forward to your testimony. Again, I know you have some tight time constraints, too, so if you can try and condense your opening remarks to 5 minutes, we can assure you that any printed statements will be a part of the permanent record.

With that, I would like to yield to Ambassador Barshefsky.

STATEMENT OF HON. CHARLENE BARSHEFSKY, ACTING U.S. TRADE REPRESENTATIVE, OFFICE OF THE U.S. TRADE REPRESENTATIVE

Ms. BARSHEFSKY. Thank you so much, Mr. Chairman. It is a pleasure to be here today before you.

I would like to discuss the United States-China relationship briefly. I know Ambassador Lord is going to discuss that in further detail. I would like to focus in particular on the question of intellectual property rights, which so many of the members have mentioned.

It is an understatement to say that the United States-China relationship is complex and multifaceted. America has a range of issues with China that go far beyond trade. We have a deep and abiding interest in human rights and are critical when basic international norms are not met. We have continuing concerns in areas ranging from nonproliferation to environmental concerns and increasingly, of course, trade plays an essential role in the relationship.

China is the world's fastest-growing major economy, already possessing the world's largest population. By early next century, China may have the world's largest economy.

On Friday, the President sent to Congress the formal waiver recommending extension of unconditional MFN to China for another year. U.S. interests in China are best promoted, we believe, if we maintain MFN as the foundation for our trade relationship.

Mr. Chairman and Members of the Subcommittee, we will never achieve China's full integration into the international community by building walls that divide us. The most repressive periods in modern Chinese history did not occur in times of open exchange. They occurred in times of isolation. President Clinton believes we must remain engaged with China, and Ambassador Lord will review this in some detail. But, let me be clear by what we mean by engagement.

President Clinton came to office with the view that engagement with China does not mean ignoring our differences. It means that we actively engage China to resolve our differences and it means protecting our interests when consultations are not fruitful, and that brings me to the intellectual property rights issue.

As you are aware, last month, the United States announced the publication of a \$3 billion preliminary retaliation list targeting Chinese exports to the United States for China's failure satisfactorily to implement the 1995 Intellectual Property Rights Enforcement Agreement. Barring satisfactory implementation of the agreement by China, a final list of approximately \$2 billion will go into effect on June 17.

We do not take the move toward retaliation lightly. China has taken certain actions to improve IPR protection, particularly in cleaning up its retail market and in establishing a nationwide enforcement structure. Where Chinese officials have demonstrated resolve, as in Shanghai, they have shown that piracy can be brought under control.

Despite these improvements, China has not enforced key areas of the agreement, including halting piracy at its source. Last year, China exported approximately 50 million pirated CDs, CD-ROMs, VCDs, and LDs to the world. Today in Hong Kong and elsewhere, \$10,000 software packages can be purchased for as little as \$5. Pirate versions of Microsoft's Windows 95 were on sale in China before it was officially introduced. Motion pictures are often pirated and available on VCD before they are released in the United States.

The effect of this activity on the U.S. economy is clear. U.S. copyright industries alone represent more than 5 percent of the U.S. work force, roughly equal to the U.S. auto industry, and are growing at three times the rate of the rest of the economy. When China pirates American products, it denies the ideas, the enterprise, and the jobs of these American companies and the workers they employ.

China must take four key actions to remedy the current IPR situation and implement the agreement. It must first close or clean up the CD factories.

Second, it must intensify enforcement in areas where piracy is rampant, such as Guangdong Province.

Third, it must take effective action to curb piracy at its borders, particularly seizures of bulk cargo shipments.

And finally, China must permit market access for U.S. computer software, sound recording, and motion picture products and companies.

China knows exactly what it must do to get back on the compliance track. I am pleased to say that we can confirm China has closed some factories. Has it done enough yet? No. The issue is for China to take further concrete and verifiable action to reduce piracy at its source and at its borders.

Let me make two final points on this issue. First, the United States has gone the extra mile to help solve the problem. Since the signing of the agreement last year, we have sent nine delegations to China. We have had more than 30 high-level consultations and our government agencies and private industry have provided massive technical assistance to China to assist it in its enforcement efforts.

Second, we are not asking China to do anything more than what it already agreed to do 14 months ago. This administration will enforce trade agreements entered into and China can be no exception.

Mr. Chairman, the benefits of the United States-China relationship are important for both countries and must run in both directions. Renewal of MFN by the Congress, as well as continued engagement with the Chinese, is the United States contribution to that mutual relationship. China's contribution must be to open its markets, to adhere to international norms, and to become a responsible international player. Thank you very much.

[The prepared statement follows:]

**Testimony Before
The House Ways and Means Trade Subcommittee
Ambassador Charlene Barshefsky
June 11, 1996**

Mr. Chairman, it is a pleasure to appear before the Subcommittee today to discuss the U.S.-China relationship and the question of intellectual property rights enforcement.

It is an understatement to say that the U.S.-China relationship is complex and multifaceted. America has a range of issues with China that go far beyond trade. We have a deep and abiding interest in human rights, and are critical when basic international norms are not met. We have continuing concerns in areas ranging from non-proliferation to environmental protection. And increasingly, trade plays a central role in our relationship.

Make no mistake about it. Americans have a commercial stake in China. At least 160,000 Americans owe their jobs to U.S. exports to China. Just as we should not make apologies *for China*, we should not apologize for our economic interest *in China*.

China is the world's fastest growing major economy, with annual growth rates of more than 10 percent for each of the past four years -- and average growth rates of greater than 7 percent for each of the past fourteen years. Already possessing the world's largest population, by early in the next century, China may have the world's largest economy.

On May 31, the President sent to Congress the formal waiver recommending extension of unconditional MFN to China for another year. The United States' interests in China are best promoted if we maintain MFN as the foundation for our trade relationship.

Mr. Chairman, we will never achieve China's full integration into the international community by building walls that divide us. The most repressive periods in modern Chinese history did not occur in times of open exchange -- they occurred in times of isolation. President Clinton believes we must remain engaged with China.

But let me be clear about what we mean by engagement. President Clinton came to office with the strong view that engagement with China does not mean *ignoring* our differences. It means we actively engage China to *resolve* our differences and it means protecting our interests when consultations are not fruitful.

When the President decided to delink human rights and MFN two years ago, he said that we were prepared to use a whole array of legislative and administrative methods to address specific issues with China. With respect to trade, as the President has repeatedly said, we welcome foreign products, but insist that our products be treated fairly overseas. When other countries do not live up to their obligations, we will take action. More than three years ago the President affirmed that, "We must enforce our trade laws and our trade agreements with all the

tools and energy at our disposal." We have used all of the tools at our disposal to open China's market.

One area of immediate difficulty, of course, is China's lack of satisfactory implementation of the 1995 Intellectual Property Rights Enforcement Agreement.

Mr. Chairman, as you are well aware, last month the United States announced the publication of a \$3 billion preliminary retaliation list targeting Chinese exports to the United States. This action set in motion a 30 day clock before final action occurs. Last week, USTR held public hearings on the retaliation list, and we appreciated the range of comments from individuals and companies that we received. We are currently preparing a final list with a value of approximately \$2 billion -- a figure commensurate with the damage inflicted on U.S. industries. Barring satisfactory implementation of the IPR Enforcement Agreement by China, the final list will go into effect on June 17.

We do not take the move toward retaliation lightly. China has taken certain actions to improve IPR protection particularly in the retail sector. Over the past year, China has carried out more than 4000 raids and destroyed approximately 2 million pirated CDs, and hundreds of thousands of pirated books, audio cassettes, and trademarks. Some IPR court cases involving foreign rightholders have also been resolved successfully over the past year.

China has also established a nationwide IPR enforcement structure as required under the Agreement -- a system of more than 30 provincial and municipal level task forces comprised of enforcement agencies and the police. The system -- designed to target piracy, levy stiff fines, and remand infringers for criminal prosecution -- is working in some localities. In Shanghai, for example, officials have made IPR protection a priority and have taken effective action to clean-up the city's markets. Clearly, where Chinese officials have demonstrated resolve, they have shown that piracy can be brought under control.

Despite these measures, China has not enforced key areas of the agreement, including halting piracy at its source. As a result, important American industries and broader American and international interests are getting hurt. Last year, China exported approximately 50 million pirated CDs, CD ROMs, VCDs, and LDs to the world. Today in Hong Kong and elsewhere, \$10,000 software packages can be purchased for as little as \$5. Pirate versions of Microsoft's Windows 95 were on sale in China before it was officially introduced. Motion pictures are often pirated and available on VCD disks before they are released in the United States.

The affect of this activity on the U.S. economy is clear. U.S. copyright industries alone represent more than 5 percent of the U.S. work force -- roughly equal to the U.S. auto industry -- and are growing three times as fast as the rest of the economy. The copyright industries contribute more than \$350 billion a year to the U.S. economy, accounting for more than 6% of GDP. The U.S. computer software industry alone maintains a 75% market share worldwide and created almost 60,000 jobs last year. When China pirates American products, it denies the ideas,

the enterprise, and the jobs of these American companies and the workers they represent.

China must take four key actions to remedy the current IPR situation and implement the IPR Agreement:

First, action against the factories involved in the production of pirate CDs and CD-ROMS. We have an aggressive strategy with China to ensure -- to the best of our ability -- that all CD factories in China are producing legitimate CDs, LDs, CD-ROMs, and Video CDs. The IPR Agreement that we have in place with China calls for the clean-up all factories producing pirated products. We have targeted the worst offenders and have asked the Chinese to close down these factories immediately. In addition, we are working with the Chinese Government to ensure that the remaining factories are cleaned-up or closed down. The point is that we need to see a comprehensive system in place to crackdown on piracy in China.

Second, intensify enforcement in areas of China where piracy continues to be rampant, such as Guangdong Province. While China has raided retail establishments extensively, regions such as Guangdong continue to engage in rampant piracy. Manufacturers and distributors have remained untouched. Major pirates have not been punished, and prosecutors remain reluctant to tackle copyright infringement cases. Penalties are rarely sufficient to deter piracy -- for pirates they are now simply a part of the cost of doing business.

Third, take effective action to protect intellectual property at China's borders -- particularly seizures of bulk cargo shipments. Exports of pirated products -- mainly from Southern China through Hong Kong -- result in huge losses for U.S. companies in third country markets. China's Customs Service has conducted more than 1000 seizures, but mainly against foot traffic at the border. China has yet to target cargo shipments -- the primary export method for pirated CDs.

Finally, permit market access for U.S. computer software, sound recording and motion picture products and companies. China has not yet fulfilled any of the major elements of the market access commitments that it undertook in the IPR Enforcement Agreement. Although China has entered into some revenue-sharing arrangements, US filmmakers still face de facto quotas in China's markets. China has yet to issue regulations allowing the establishment of joint ventures for production of audiovisual products, including the signing and promotion of local artists, as well as other market access steps.

Actions in these areas, all required by last year's agreement, will establish the foundation for bringing the rampant piracy under control. China knows exactly what it must do to get back on the compliance track. The issue now is for China to take concrete and verifiable action to reduce piracy at its source and at its borders.

Let me make two final points on this issue. First, the United States has gone the extra mile to help solve this problem. Since the signing of the agreement last year, we have sent eight delegations to China and its provinces and conducted more than thirty senior level meetings. At

the request of the Chinese government, we have a team in China this week for consultations. The United States has also provided technical assistance in support of this effort. Key U.S. law enforcement agencies have provided assistance to the Chinese including the Department of Justice, the FBI, the Customs Service, the Patent and Trademark Office, the U.S. Information Agency, and USTR. Additionally, the U.S. private sector has hosted literally dozens of training seminars throughout China. In fact, our companies have gone so far as to donate computer equipment and software to the Chinese customs service.

Second, the IPR issue has significance beyond bilateral relations between the United States and China. As the world's fastest growing market, whether China enforces its trade obligations matters for everyone. We are not the only nation for which the protection of intellectual property rights is important and this is well known to China. We have not asked China to do anything more than what other Asian nations are already doing -- indeed what China has already agreed to do. The vitality and success of the global trading system depends on everyone living up to their obligations.

We urge China to take the concrete actions necessary to demonstrate its firm commitment to the Agreement and ensure its implementation. There is time for this to happen before sanctions go into effect. We are prepared to work with the Chinese toward that end. But it is decisive action against piracy that China must now take.

Mr. Chairman, the U.S.-China relationship is as important as any bilateral relationship in the world. But the opportunities in our relationship with China must run in both directions. For China, the potential of the U.S. market is matched by a tangible reality. Roughly one third of China's exports go to the United States, including tens of billions of dollars worth of electronic machinery, textiles, footwear and an ever increasing volume of higher value added products. In addition, Chinese companies -- like all foreign companies -- are allowed to establish freely in the United States. No one restricts their right to do business with American customers.

For the United States, it is certainly true that China offers unmatched potential. Unfortunately, while progress has been made, for the United States, the potential of the China market remains unfulfilled in many respects. While the United States accepts one third of China's exports, China accounts for less than 2 percent of U.S. exports and maintains highly restrictive import policies. China must further open its markets. The first step is to ensure compliance with commitments already made.

We have an opportunity to bridge important gaps in our relationship, so that benefits travel in *both* directions. To make this potential a reality, the United States stands ready to do its share. Renewing MFN, along with a broader engagement strategy, is critical to building a long term, stable relationship with China. But China, too, must bear *its* share. It must respect international norms, open its markets, and fulfill the commitments it makes. Mutual prosperity depends on this.

Chairman CRANE. Thank you, Ms. Barshefsky.
Mr. Lord.

**STATEMENT OF HON. WINSTON LORD, ASSISTANT
SECRETARY, EAST ASIAN AND PACIFIC AFFAIRS, U.S.
DEPARTMENT OF STATE**

Mr. LORD. Mr. Chairman, I will submit my full statement for the record and just give you brush strokes of our approach, in the interest of time.

I will begin by saying and pointing out that since the 1979 normalization, every administration, Republican and Democratic, has extended China's MFN trading status. Then I go through a series of myths and misunderstandings with respect to our China policy generally and MFN particularly.

The first one has been addressed, the misleading nature of the very term itself, most-favored-nation treatment. I will not belabor that except to say this is not a referendum on China's behavior. We will meet that behavior when it is unacceptable using various instruments, both pressures and inducements, but we do not think MFN is the way to proceed.

I point out how we have used these other instruments with respect to Taiwan. Both through rhetoric and removal of certain military assets, we have made clear that the resort to force would have grave consequences. Tensions have been reduced.

On nonproliferation, we have on several occasions either threatened or actually employed sanctions. We are required to make non-proliferation progress and we have made some progress.

On IPR enforcement, Ambassador Barshefsky has already addressed that.

With respect to human rights, we are using other multilateral and bilateral ways of attacking this very serious problem, but again, MFN, we do not believe, is the way to proceed.

A second myth that exists in our China debate is that whenever there are difficulties in relations with China, somehow, it is due to United States miscues. The fact is that no matter how wise and steady our policy, we will continue to encounter problems as well as opportunities on our relations with Beijing.

Mr. Chairman, during this particular period, we are dealing with a complex, difficult, and prickly partner whose power is growing, whose leadership is in transition, and whose government is turning increasingly to a nationalism that is conditioned by thousands of years of experience as a dominant "Middle Kingdom" and more than a century of humiliation by foreigners. Against this backdrop, any administration, any policy would encounter tensions.

Growing out of that is the third myth, that therefore because of these problems and tensions, we should practice containment or try to control China. This would be a self-fulfilling prophecy, turning China into an enemy. We are not naive. We are maintaining our force levels. We are maintaining our various options.

But, to opt for containment would require a major shift in our economic, military, and diplomatic resources. We in the global community would risk much if China were to become isolated and unstable. We would be alone. None of our friends, however they may be concerned about growing Chinese power, would join us in

a containment policy. And we would forfeit Chinese cooperation on many global, bilateral, and regional issues.

Then a fourth myth comes up arising from that. If you cannot practice containment, the only alternative must be appeasement. We have already heard that word here today. Consistent with the approach of five previous administrations of both political parties, this administration's policy of engagement in no way implies acquiescence in Chinese actions that clash with U.S. interests or international norms.

I have already pointed out, and I do in my statement, how we are firm wherever necessary and will be cooperative wherever possible. We use all the instruments at our disposal, including domestic legislation, where required, to promote progress in Chinese behavior. Our willingness to take a firm stance when necessary as required to protect our interests, maintain domestic support for engagement, and, frankly, engender respect in Beijing itself.

The fact is, with all the media attention on our frictions and problems, and they are substantial, there are many areas where we do cooperate with China. I list that in my statement. Engagement is paying off in many areas, even as we have trouble in other areas. In their own self-interest, the Chinese are helping us on the North Korean nuclear problem. They have cutoff aid to the Khmer Rouge in Cambodia. At the United Nations, although they sometimes can be annoying, they are not using their veto or obstructing important U.N. actions.

Even in nonproliferation and trade, despite all our problems, we have made some progress and our exports are growing fast in the Chinese market. On issues like international crime, controlling narcotics, getting at the environmental problem, alien smuggling, China and the United States have a useful dialog and cooperation.

Finally, my statement ends up by pointing out what MFN withdrawal would not accomplish with respect to our goals. It would not promote China's adherence to nonproliferation standards, and I point out why. It would not open China's markets and foster respect for commercial laws. It would not help to protect the rights and freedoms of Chinese citizens or ease repression in Tibet, both of which we are very seriously concerned about, both of which I have raised literally within the last few hours with our Chinese friends.

It would not enhance the stability and security of Taiwan and Hong Kong. You could not have more dedicated spokesmen for human rights and democracy or people more suspected in Beijing than Governor Patten of Hong Kong and Martin Lee, the pro-democracy activist. Despite their other concerns, they came here a few weeks ago, as you know, and argued very strongly for extending MFN because to remove it would have a devastating impact on this innocent bystander in Hong Kong, not to mention what it would do to Taiwan.

Finally, MFN withdrawal would inflict great damage on a range of important U.S. interests, denying us tens of thousands of American jobs, setting back the process of openness and reform in China, straining our relations with our partners in Asia and else-

where, and hampering our ability to work constructively in some of these areas of cooperation that I have pointed out.

So China must make its efforts. We must make our efforts. It is an important relationship. It is inevitably troubled, but we believe engagement is the way to pursue that, as I said earlier, being firm wherever necessary and cooperative wherever possible. As President Clinton has noted, a vote for MFN renewal is a vote for American interests. Thank you, Mr. Chairman.

[The prepared statement follows:]

Testimony by

Ambassador Winston Lord
Assistant Secretary for East Asia and the Pacific
Department of State

Before the

House Ways and Means Committee
Trade Subcommittee

June 11, 1996

Thank you very much for the opportunity to testify before this committee on the extension of China's Most Favored Nation (MFN) trading status. This issue is of critical importance to our relationship with a country that is fast becoming a major regional and global power. It has great significance for our national interests. I would like to use my time this morning to put the MFN decision into the broader context of overall U.S.-China relations.

Since we normalized relations with China in 1979, every U.S. administration -- Democratic and Republican -- has extended China's MFN trading status. This Administration supports the continuation of that well-established policy.

As President Clinton said when he confirmed his commitment to this policy two weeks ago: "MFN renewal is not a referendum on all China's policies." It does not constitute an endorsement of any specific action or behavior. The decisions of President Carter, President Reagan, and President Bush to extend MFN did not indicate their approval of Chinese

repression of behavior. Their decisions were based on a balanced assessment of U.S. interests and the best means of pursuing those interests. The same considerations apply today.

Unfortunately, a number of myths and misunderstandings have muddled our discussions on China's MFN status.

First of all, the term "Most Favored Nation," in itself, contributes to the confusion. Contrary to the way it sounds, MFN does not provide any preferential or special treatment and is clearly not a reward for good behavior. Rather, it is the normal commercial foundation upon which our relations with all but a handful of our international trading partners rest. It is also the basis of multilateral consensus and support for a free and open global economic system.

As Congressman Bereuter recently noted, we have not withdrawn Nigeria's MFN status because its current regime has executed poets and other political dissidents. Products from Syria and the Sudan receive MFN treatment, despite their governments' support for international terrorism.

The extension of this status in these cases, of course, does not mean that we do not consider human rights abuses, support for terrorism, or IPR piracy to be serious problems. However, MFN withdrawal is clearly not the best way to deal with such issues. In each case, we have more appropriate and more effective foreign policy tools at our disposal.

This is also true in our relations with China. Relying on the instruments already available, we have tailored our responses to China's behavior for maximum effectiveness. These instruments provide both positive and negative inducements for Beijing to address our concerns. For example:

- o On Taiwan, our response to Beijing's missile exercises in the Strait this March was clear. Our deployment of naval forces to the region was meant to avert any dangerous miscalculations and signaled to all our friends our intention to maintain our presence in the region. We have emphasized to both sides of the Strait the importance of avoiding provocative actions and we continue to strongly urge both sides to resume the cross-Strait dialogue.
- o On non-proliferation, we have demonstrated our determination to enforce U.S. law. In 1994, as a result of the sanctions we had imposed following China's sales of missile equipment to Pakistan, China agreed not to export ground-to-ground MTCR-class missiles, and reaffirmed its commitments to abide by the MTCR Guidelines and Annex.

More recently, this firm stance was critical to our ability to obtain China's commitment that it "will not provide assistance to unsafeguarded nuclear facilities" in third countries, including Pakistan. This is a new and significant public commitment by China. It goes beyond earlier Chinese commitments by accepting responsibility not only to control nuclear items specifically listed on the international trigger lists, but also dual-use items, including ring magnets, and other forms of assistance to unsafeguarded nuclear facilities. It is an important step forward.

- o On IPR enforcement and other trade issues, we have left no doubt about the serious consequences of failure to remedy chronic problems and comply with international and bilateral commitments. At the same time, we have worked hard to provide constructive advice and support for China's efforts to integrate its economy into the world trading system.
- o With respect to human rights, this Administration has kept faith with our principles by placing a high priority on human rights issues in the conduct of our relationship with China. We have engaged China bilaterally to raise our concerns, we have taken appropriate multilateral actions, and we have kept the focus on what China needs to do to adhere to international human rights standards. Our relationship with China covers a broad array of issues

and interests which we must weigh. But we will ensure that Beijing is aware that its behavior on human rights is of great concern and will continue to be a priority for us.

At the same time, Chinese society is opening up, and its increasing integration into the international community will be a long-term process. The creation of an increasing network of economic, educational, cultural, technical, and legal ties between Chinese citizens and the outside world will help foster a positive climate in China for human rights. We are pursuing both governmental and non-governmental dialogue with China on issues related to the rule of law. Over time, this engagement, too, will have a significant effect.

A second myth that exists in some quarters is that whenever there are difficulties in our relationship with China, it must be due to U.S. misdeeds. Clearly, the U.S. is not responsible for political insecurities that lead Beijing to imprison dissidents. Clearly, our policy did not cause Beijing to launch missiles into the Taiwan Strait, to export dangerous technologies, or to fail to open markets and enforce intellectual property rights.

The reality is that, no matter how wise and steady our course, we will continue to encounter problems as well as opportunities in our bilateral relations with China. Moreover, during this period, we are dealing with a complex, difficult

and prickly partner whose power is growing, whose leadership is in transition, and whose government is turning increasingly to a nationalism that is conditioned by thousands of years of experience as the dominant "Middle Kingdom" and more than a century of humiliation by foreigners. Against this backdrop, any Administration, any policy would encounter tensions. It is inevitable that two great nations -- with different histories, cultures, and stages of development -- will have differences.

A third myth is that America should respond to our differences with China by seeking to control or contain it. Such a policy would be misguided and, in the end, unsuccessful. It would constitute a self-fulfilling prophecy of turning China into an enemy. It would require a major shift in our economic, military and diplomatic resources. We and the global community would risk much if China were to become weak, isolated and unstable. Who could seriously contend that China, in such circumstances, would be more likely to respond positively to our concerns in such areas as regional security, arms control, trade and human rights? As Secretary Christopher said recently, "A more secure China is likely to be more open to reform and a better neighbor."

In practical terms, a containment policy would require the support and cooperation of Europe, Russia, Japan, Korea, and others in the region. Whatever the degree of their concern about China's growing power, no country would be willing to join in efforts to contain the PRC. And if we attempted to pursue such a policy alone, we would not only lose our ability

to influence China in ways that promote our interests. We would also lose the benefits of cooperation on trade and other commercial issues, on North Korea, non-proliferation, UN Security Council actions and other international security issues and on global issues like the environment, narcotics trafficking and international crime. We would also severely strain our relations with our many friends and allies in Asia and elsewhere, and could potentially destabilize the entire region.

A fourth myth, suggested by some of those who advocate containment, is that the only alternative is appeasement. Consistent with the approach of five previous administrations of both political parties, this Administration's policy of pursuing U.S. interests through engagement with China in no way implies acquiescence in Chinese actions that clash with U.S. interests or international norms. As I explained earlier, engagement allows us to tailor our responses to the specific circumstances in each area where we have differences with China. It makes it possible for us to apply a wide range of inducements and pressures on issues where we wish to encourage China to adjust its course. Engagement means being firm whenever necessary, and cooperative whenever possible.

Where China does not comply with its international commitments or with internationally-recognized standards of behavior, we are prepared to use all the instruments at our disposal, including those provided for in existing domestic

legislation, that may be required to promote progress. Our willingness to take a firm stance when necessary is required to protect our interests, maintain domestic support for engagement, and engender respect in Beijing. It is an important component of building a stable, productive and mutually-beneficial long-term relationship.

At the same time, engagement allows us to continue to enjoy the substantial benefits of a constructive and cooperative bilateral relationship with China. In the midst of the inevitable frictions and media attention, let us not lose sight of these positive elements.

The benefits of engagement with China are not limited, as is sometimes implied, to the economic and commercial sphere. China, in its own self-interest, has cooperated with us in managing dangerous North Korean behavior. It has cut off aid to the Khmer Rouge and supported the elected government in Cambodia. Though sometimes exerting its influence, China has not vetoed United Nations actions of critical importance to the international community. It has cooperated with us in such areas as narcotics trafficking and alien smuggling.

Despite serious continuing problems, China has come a long way in the last decade on non-proliferation and arms control issues. It has joined the Non-Proliferation Treaty (NPT) and the Chemical Weapons Convention and has supported rapid

conclusion of the Comprehensive Test Ban Treaty (CTBT). In 1994, after we had imposed sanctions related to Chinese sales of missile equipment to Pakistan, China agreed not to export ground-to-ground MTCR-class missiles. More recently, we have obtained China's commitment not to assist any un safeguarded nuclear facilities.

On the economic side, despite some substantial disputes, China has been our fastest growing export market in recent years. Last year alone, our exports increased by more than one-fourth, supporting nearly 170,000 American jobs. Based on sales in the first quarter of this year, we may do nearly as well this year -- creating another 35,000 or more new jobs.

With one of the world's highest economic growth rates, China offers enormous commercial opportunities for U.S. business. To take just one example, by the year 2000, China is expected to invest over \$150 billion in electric power production and distribution, transportation, telecommunications and other major commercial and infrastructure projects. If allowed to compete on a level playing field, U.S. companies can expect to win a significant portion of the related international contracts. But if our producers are handicapped in this key market, European, Japanese and other international competitors are ready and able to take their place.

Commercial concerns, of course, are only one of our foreign policy interests. But we must be very sure of the effectiveness of our proposed actions before we put at risk the livelihoods of so many American citizens.

Given the stakes involved, the extension of China's MFN status is a precondition of engagement -- both where we seek changes in Chinese behavior and where our interests and policies coincide. An examination of the negative consequences of MFN withdrawal for U.S. interests offers a compelling case for our policy approach.

On the one hand, MFN withdrawal would NOT accomplish our goals:

- o It would NOT promote China's adherence to non-proliferation standards. Rather, it would strengthen hardliners and provide a strong incentive to compensate for lost revenues from legitimate trade with exports of dangerous and destabilizing technologies and equipment.
- o It would NOT open China's markets and foster respect for commercial laws and trade disciplines. Rather, it would bolster the claims of nationalists that China cannot rely on its international partners and must remain separate, self-reliant and unbound by international norms and standards of behavior.

- o It would NOT help to protect the rights and freedoms of Chinese citizens or ease repression in Tibet. Rather, it would restrict access to the outside world and reduce the impact of international values on Chinese society and politics.
- o It would NOT enhance the security and stability of Taiwan and Hong Kong. It would deal severe blows to their economic interests and stability, while raising tensions and diminishing the chances for a peaceful cross-strait relationship and a smooth transition to Chinese sovereignty over Hong Kong.

On the other hand, MFN withdrawal would inflict great damage on a range of important U.S. interests:

- o It WOULD deny tens of thousands of jobs to American workers -- jobs that would quickly move to the economies of our international competitors.
- o It WOULD set back the process of openness and reform in China, doing the greatest harm to those whom we most wish to support and encourage there.
- o It WOULD strain our relations with our partners in Asia and elsewhere.

- o It WOULD severely hamper our ability to work constructively with one of the world's most powerful nations on the broad range of U.S. foreign policy interests.

This Administration will not downplay or ignore our problems with China's policies or behavior. We support unconditional MFN extension not as a favor for China, but because it is good for America. The stakes are high -- for us and for China, for stability and prosperity in Asia and the world. We must manage our differences with China in a way that promotes our interests. China, in turn, must make its own efforts on behalf of a relationship that will be central to both countries' welfare in the twenty-first century.

Mr. Chairman, in the last two weeks, President Clinton and Secretary Christopher have set forth our comprehensive policy toward China. In this context, they have reaffirmed their strong conviction that U.S. national interests require the unconditional extension of China's MFN status. This judgement is consistent with the policies of previous administrations and with the advice of political leaders and foreign policy experts of both parties. As President Clinton has noted, a vote for MFN renewal is a vote for American interests. I look forward to working with you and with the rest of the Congress to build the political consensus that is required for us to steer a steady course during this difficult period in U.S.-China relations.

Thank you.

Chairman CRANE. Thank you.

Mr. Lord, I remember when Deng Xiaoping about 2 or 3 years ago traveled down to South China and he was profoundly impressed with the economic development. He described it as "Leninist capitalism," and I said that is the ultimate oxymoron. But the fact is, there are State-controlled enterprises there, as well as others driven by market forces.

I was wondering how that breaks down. What percentage would you say is really privatized and what percentage is still state-controlled?

Mr. LORD. I will let Ambassador Barshefsky give you the specific figures, but this is still their big challenge as they move toward a market economy, and that is dealing with these state enterprises. They have not moved as aggressively as they might. Frankly, I think they are concerned that if they make them truly competitive, they will have unemployment and this will contribute to instability during a period of political succession. That is one reason I think they have not made a decent offer on the WTO, because they are worried about this. But, nevertheless, they are moving toward a market economy and Ambassador Barshefsky can give you the figures.

Chairman CRANE. Before Ambassador Barshefsky addresses that question, has this privatization thrust stalled, basically?

Mr. LORD. I would not say it has stalled. It is very encouraging and it is very important. I am saying that the next big challenge on economic reform is to make many of these state enterprises more efficient or actually put them out of business and privatize them. They do seem to be pausing on that, partly, I believe, related to the fact that they are worried about the unemployment, because if you lay off workers in China, they not only lose their jobs, they lose other benefits like housing, medical care, and education. So I think there is some stalling on moving to reform the state enterprises, but the overall trend, I think, is irreversible and positive toward a more market economy.

Chairman CRANE. Very good. Ms. Barshefsky.

Ms. BARSHEFSKY. Mr. Chairman, the estimates are that between 50 and 70 percent of China's economy is State-owned, operated, State-run, or where the State has a significant influence. There is a growing entrepreneurial class, and in China's most recent 5-year plan, there is a provision for substantial reduction in state ownership of industry through privatization as well as through closure.

But as Ambassador Lord has said, while some progress has been made, it is of a limited nature, because of some provincial resistance to closure of these enterprises due to the unemployment concern, and also, to some disagreement within the Chinese Government circles as to the best way to proceed with respect to privatization or closure.

Chairman CRANE. But to the best of both of your knowledge, is the government, the successors, or successor maybe, but are they as committed in your estimation to "Leninist capitalism" as Deng Xiaoping was?

Ms. BARSHEFSKY. The phrase that the Jiang administration has used has been, "a socialist market economy." Certainly, there are competing factions within China, as one might expect. There are

those in the leadership circle who do not wish to see the pace of market opening accelerated in any respect and who do not wish to see external interference in the manner in which that opening occurs, which is to say who are also opposed to WTO accession.

There are others within the leadership that believe that the current course China is on is the right course and that WTO accession and opening of the market in a manner consistent with international standards should be sought by China and is desirable for China. But that debate is an ongoing debate within China and it rages to the present time.

Mr. LORD. If I could add a few comments, I agree completely with what Ambassador Barshefsky has said. I do think the overall trend of moving toward the market and trading with the outside world will continue and they are dedicated to it because they have seen how they have grown when they have done that and where there is stagnation where they have not.

But there are these debates, and it is not only related to economic considerations, it is related to the oxymorons that you are mentioning. You cannot have both. In my view, they are oxymorons, whether it is phrased as, "Leninist capitalism" or "market socialism."

What this reflects, also, is the big debate going on, not only in China, but also in Vietnam and many other countries of the world, and that is can you have economic openness in a closed political system? The Chinese feel that they can. They look at the Russian example and they rather smugly assume that you can continue to have political repression and open economics. I do not believe you can for very long.

First of all, you buildup a middle class and man or woman does not live by rice alone. We have seen it, as somebody pointed out, in Taiwan, South Korea, and Chile.

But second, I would argue that this whole process has been accelerated in an age of Internet, faxes, and computers, when economies depend so much on openness, debate, information, and pluralism. That is why I think they are going to have to loosen up that political system over time, but that is behind part of this debate.

We believe that trade and investment, including MFN renewal, helps to advance that process in a constructive way.

Chairman CRANE. Thank you.

Mr. Rangel.

Mr. RANGEL. Thank you.

I feel that we are adopting a policy with China much like the one we had with South Africa, that is while we have found their conduct repugnant, it is our general belief that having a policy of constructive engagement in the long run would benefit United States interests. There is also the question of human rights and the question of denying access of U.S. goods to their markets.

What I am very sensitive to is the fact that many United States businesses are vulnerable if, indeed, the results of their research and technology are just absolutely ignored. This applies particularly to movies, videos, software, and music and is a result, we are told by China experts, of some cultural misunderstanding of what basic theft is.

So, I am afraid that some of our businesses are going to suffer and one of our major exports may lose its competitive edge while we are waiting for some cultural or other changes to take place.

I support the President. I support the witnesses' expertise. But, are there any tools available to show just how strongly we feel about what they are doing other than denying them the ability to trade with us like any other nation? There should be a little more outrage, in my opinion, as to what is happening to us, not just now, but more importantly, for the future of American-based corporations that we hope would maintain leadership in world trade. Ambassador?

Ms. BARSHEFSKY. Yes, Mr. Rangel. Let me say that the use of targeted trade sanctions by the administration to assist in opening China's market, to assist in leveling the playingfield, is a policy to which we are committed. That is clear from our response 3 years ago on the textile issue, when we said to China, either negotiate a good agreement with us or we will unilaterally take away a quarter of your textile access to the United States. Two days later, we had an agreement, which was a good agreement, and has resulted in substantially reduced Chinese textile shipments to the United States.

Or 14 months ago, where we said to China, negotiate a good intellectual property rights enforcement agreement with us, or we will impose trade sanctions. Or now, where we are seeking enforcement of the commitments China has already made and we have already announced the publication of a preliminary retaliation list of \$3 billion, heavily focused on textiles and apparel in China because that is a sector where we believe would most incentivize China's compliance with the agreements it makes.

Mr. RANGEL. But their contemptuous response is counter-sanctions. In other words, they appear to not care about what we say or what we do. They are going to take us to the mat. If we are so weak that all we can do is surrender, then let us surrender and get it over with. But every time we say that we are going to sanctions, they threaten us.

Ms. BARSHEFSKY. Mr. Rangel, their threats of sanctions do not change what is a good agreement into a bad agreement and certainly does not change a bad agreement into a good agreement. The textile agreement that was negotiated 3 years ago demonstrably has been a great agreement for the United States. The intellectual property rights enforcement agreement negotiated 14 months ago is a very good agreement. It is historic in proportion. Enforcement, let me—

Mr. RANGEL. Just in conclusion, share with me once again why their stealing our rights is a cultural misunderstanding, and why we should understand that they think they have the right to steal because they are not developed. Could you run that by me just once again?

Ms. BARSHEFSKY. We do not accept the notion that there is any cultural excuse to theft. The Chinese are quite clear that the United States, the Western world, indeed, 114 nations of the WTO view their actions as theft. We are not waiting—

Mr. RANGEL. That is because we are American, but give me the Chinese view as to why—

Ms. BARSHEFSKY. The Chinese do not particularly express that view. If you want to know why piracy is occurring, it has nothing to do with culture. It has to do with money. Piracy is a very lucrative business. There is a lot of money to be made by pirates, which is why it is a problem worldwide.

Mr. RANGEL. Then it is theft and we do not have to be sensitive in dealing with it that way.

Ms. BARSHEFSKY. It is theft, but from the point of view of U.S. interests, the way best to deal with it is to get China to do what we have gotten many other countries to do and that is enforce intellectual property rights protection. That is the best outcome for us. That is the best outcome for China.

Mr. LORD. Could I make a related point, Mr. Chairman? I know you are pressed for time, but it has to do with enforcing intellectual property rights, preventing theft, and many other problems we have with China.

I am reminded when you mention the South Africa situation, and I am not equating South Africa and China, I want to make that clear. There are some differences, obviously. In the case of South Africa, we had international support, whether it was the United Nations or other countries, and, therefore, pressures and sanctions were much more effective.

One of our biggest problems in China is that our friends in Europe and Japan hold our coats while we take on the Chinese and they gobble up the contracts. I have said it directly to our friends. If we could get more European and Japanese support on intellectual property rights, for example, where they have a clear interest, on nonproliferation, on human rights, whatever we did, targeted or not, would be much more effective. It is one of our biggest problems. We are working on it, but we need more help from our friends around the world.

Mr. RANGEL. You have the same problem with Cuba, too, I assume.

Mr. LORD. That is correct.

Chairman CRANE. Mr. Shaw?

Mr. SHAW. Thank you, Mr. Chairman.

I want to pursue pretty much the same line that Charlie Rangel was pursuing except I want to switch over to the contractual area. As you know, there have been some problems in the enforcement of contractual rights in China. One was particularly brought to my attention which concerned Rev Power Limited and their attempt to enforce an arbitral settlement in Stockholm that was against the Shanghai Far East Aero Technology Import and Export Corp., which is, incidentally, a state-owned Chinese company.

What is the status of that? Are we making any progress? Do we see that the Chinese are moving more toward what is considered a norm as far as the enforcement of contractual rights?

Ms. BARSHEFSKY. Congressman, I am not sure that we can presume any track record toward the recognition of arbitral awards from the Rev Power example, but it is true that the Shanghai court has finally recognized the arbitral award, has directed that the books of the Shanghai Corp. be looked into with respect to that award.

My understanding is that upon looking into the books of the Shanghai Corp., it was discovered that there is very little money left in the corporation. There was apparently a very substantial transfer of assets out of the corporation so that the award, as a practical matter, would be rendered invalid.

This is an issue that we have raised with the Chinese and will continue to raise with the Chinese. We are working with the State Department on this.

Mr. SHAW. Is this type of thing a high priority within your office?

Ms. BARSHEFSKY. This is a very high priority, Mr. Shaw, because this has to do with the development of the rule of law in China. Either China is going to abide by international norms in cases such as Rev Power, where arbitral awards are at issue, or it is going to be thought of as rather a renegade with respect to these issues. Their accession to the WTO and other multilateral institutions, I think, is at risk, the extent to which we do not have confidence that China will abide by international agreements.

They are a member of UNCITRAL. They should be abiding and recognizing arbitral awards that are granted. And certainly, the Chinese government and the provincial government should not be condoning the transfer of assets from corporations against which there are arbitral awards.

Mr. SHAW. Do we have their attention in this area and is this an area that—I have just brought up one instance that has been brought to my attention—is this something that is a real problem for many of our American business people?

Ms. BARSHEFSKY. I believe we are getting their attention in this area, but the Chinese have a spotty record with respect to contractual enforcement generally. There is the McDonald's example, but there are many other examples of that sort. Again, the overarching difficulty here is that the rule of law is simply not a tradition firmly established in China.

Mr. SHAW. Was it a tradition if you go back prior to the Communist revolution? They have been big in trade from the beginning of recorded time, just about, and it would seem that they would have developed a line of law prior to the Communist revolution that they could draw back on. Is there a history of law in that area?

Mr. LORD. There is not much history of law in China, Mr. Chairman. There have been some periods where there has been attention to that, but Ambassador Barshefsky is correct. They do not have this tradition. They are trying to develop it now in their own self-interest. They realize they are going to need this for economic reasons. We think it will also promote human rights, so we are working on it very hard.

Mr. SHAW. Thank you.

Thank you, Mr. Chairman.

Chairman CRANE. Mr. Matsui.

Mr. MATSUI. Thank you, Mr. Chairman. I will be very brief.

I would like to ask Ambassador Barshefsky a question. I do share much of Mr. Rangel's concerns with respect to China, and I think, by the way, the administration is doing an excellent job in attempting to deal with the five or six issues that have arisen over the last 12 to 15 months.

But, obviously, we are getting very little cooperation from the Chinese on a lot of fronts. I thought the aggression that they demonstrated with respect to Taiwan, the ring magnet sales to Pakistan, the recent assault weapons that were sent over to the United States via San Francisco, the intellectual property issue, and obviously continued violations of human rights are all issues, all of us in this country are very concerned about.

So, I applaud you and the administration for your efforts in trying to deal with these issues on a case-by-case basis, but I would hope that no one would take the support for the continuation of most-favored-nation status to be a ratification of the activities of the Chinese Government. I know you do not, and certainly, I would not want anyone from the outside thinking that those of us that support MFN would anywhere feel comfortable with the behavior of the Chinese government.

The prior panel raised the issue of economic issues, and although I do not believe this is purely economic, I think this is much larger. This is the global issue that probably is the most important bilateral relation the United States will have over the next 25 years with 22 percent of the world population. So I see this as much more fundamental than an issue of trade, and I think even the private sector views it that way.

But talking about trade for a minute, I was struck by the issue of piracy, which is currently on the front burner for USTR and your activities, Ambassador Barshefsky. You have made very clear, and the President has made very clear that on the 17th, the sanctions will be in place and certainly there will be a price to pay. The Chinese may or may not retaliate.

But, all of us in this country will support whatever actions you and the administration take, and if the Chinese retaliate, obviously, a second list from this country will have to be thrown out for further consideration. We will support that. There will be no hesitation, and certainly the members of the House and Senate, Democrats and Republicans of all ideological shades will support that activity.

But, I would like to ask about the issue. If we did not have MFN, what leverage would we have with respect to the issue of piracy? The Chinese would still be able to go buy compact discs, CDs, and whatever else they may want. They would still be able then to produce it. If we had no MFN, we obviously would have very little trade relations. So what would our leverage be, because that was one of the issues raised in the first panel, that we should cut off MFN because of piracy. It seems to me that by continuing to engage the Chinese, we have a better opportunity to eliminate piracy because piracy will occur whether we have trade or no trade with the Chinese.

Ms. BARSHEFSKY. I think you are absolutely right. From the point of view of the administration, MFN is the foundation for U.S. trade relations with virtually all countries in the world. There are only seven countries in the world—only seven—that do not have some form of MFN from the United States. That is it, only seven.

MFN is the cornerstone of normal trade relations between the United States and other countries. It is through the MFN avenue that we have consultations, that we have standing acceptance of

each other's complaints, that we have forums in which to resolve complaints and issues, that we build some measure of trust among nations, and it is MFN that, of course, is the cornerstone of the multilateral trading system which has been so beneficial to the United States. So MFN is critical. That is the undergirding, or should be the undergirding principle with respect to China.

Now, does that status ignore differences among countries? Certainly not. Does that status suggest that we will not be as vigorous and as aggressive in pursuing trade violations? Absolutely not. One can look around the world at all the rest of the countries with whom we have an MFN relationship and can see that we are every bit as aggressive with respect to trade relations. Korea, Brazil, Argentina, Japan, many countries are examples of that.

The key is not, are as satisfied with trade relations as they are. Of course we are not. No one could be satisfied with the trade deficit figures that Ms. Pelosi pointed to. The question is how best to handle that situation. Do we destroy the foundation of the trade relationship in order to build a trade relationship? I do not think so. I think that is ill advised. But, do we have a basic foundation to the relationship on which we can then build, and as to which we will defend in a targeted way? Yes. We think that is the way to proceed and that is what we are doing with China.

Mr. MATSUI. I would like to thank both Ambassador Barshefsky and Secretary Lord for their testimony and all the work they have been doing. Thank you.

Ms. BARSHEFSKY. Thank you.

Chairman CRANE. Thank you.

Ms. Dunn.

Ms. DUNN. Thank you very much, Mr. Chairman, and welcome to both the Ambassadors.

I agree with the direction the administration has taken in the threat of sanctions. I am from a state that would be in grave danger of retaliation if that were to occur. So I would like to ask you, I read a piece in the Wall Street Journal in the last day or two that the Chinese have closed down four piracy factories. I would like to know your impression of this action, if you would characterize the tone of the negotiations and is it your sense that we will actually need next Monday to go ahead with imposing the sanctions?

Ms. BARSHEFSKY. I think it is too early to tell. The Chinese tone, I think, has been constructive, but, of course, we are not seeking to renegotiate the intellectual property rights agreement. We have a good agreement. We are seeking action by the Chinese as to its enforcement.

There is no question that the Chinese have closed some factories. I do not want to put a number on that yet, but we are in the process of confirming that. There is no question that China is taking action and we believe, of course, that it is vital that China continue to do so because where we are now is insufficient relative to the requirements of the agreement. But I do think the tone has been constructive and I think China appreciates that there is no question that absent satisfactory enforcement, sanctions will go into effect on June 17.

Ms. DUNN. Thank you.

Recently, there has been a lot of talk among many of us regarding the idea of extending nondiscriminatory trade treatment to China. What are the administration's thoughts on this idea right now? Would you support extending permanent MFN to China? Would you support repealing or revising Jackson-Vanik? Could you make some comments on this, please?

Ms. BARSHEFSKY. Of course, the primary objective of the administration is to get MFN this year. This is a contentious and difficult issue. That is the focus.

With respect to whether there should be changes in Jackson-Vanik, and, of course, there would have to be legislative changes to do what you are suggesting, I think that is a matter for consultation between the administration and Congress.

Ms. DUNN. Ambassador Lord, any comment on that?

Mr. LORD. No. I would have to give you the same answer. Obviously, it applies to a lot of other countries besides China and it invokes many different issues. We have committed to getting MFN this year through the waiver process, but we would have to consult with Congress and see what kind of position we have on the issue you raised.

Ms. DUNN. Thank you.

I would also like to ask you both to address any concrete evidence or support for the position of the opponents of MFN that isolating China from the international community is going to have any positive effects.

Mr. LORD. I think the biggest problem with that thesis, and I touched on it briefly in my opening remarks, although I had to give excerpts, is that we would be entirely alone. There is growing concern about China in the Asia Pacific because of China's growing power, because of its growing nationalism, because of the South China Sea and the Taiwan Strait, purchases of military equipment from Russia. But I do not know of a single country in the world that would join us in a policy of isolation and containment.

Thus, the first problem with that kind of approach is that it would be ineffective. We already see how China plays us off against Europe and other countries with respect to contracts and so on, but this would be magnified many times over if we went to an actual policy of outright isolation and containment. So first, it would be ineffective.

Second, it would forfeit cooperation in many areas that we do have parallel policies or reinforcing interests with China. These never get attention in the media but they are important. The Chinese have been very helpful with the Korean nuclear problem, as I pointed out. They have been helpful in the last couple years on Cambodia, on drugs, on alien smuggling. We are having an increasingly important dialog on the environment. Therefore, isolation would also forfeit cooperation there.

Finally, China has 22 percent of the world's population, nuclear weapons, a United Nations veto, a huge market. So, I do not see how we could possibly even try to isolate China. There is a danger that China, through its actions, over time could isolate itself or provoke containment by others. We genuinely hope that is not the case. We are working with other countries to engage them, but without naivete. We maintain our force levels. We move our naval

ships around when we have to. We enforce sanctions when we have to. We press our interests and values. But we also cooperate where we can, and we think this mixed approach is a realistic one and much better than isolation.

Chairman CRANE. Mr. Coyne.

Mr. COYNE. Thank you, Mr. Chairman.

Ambassador Barshefsky, it was pointed out earlier today that we are going to experience a \$40 billion deficit with China this year probably. Could you list what the top products are that make up that \$40 billion?

Ms. BARSHEFSKY. In terms of two-way trade, China's top exports to the United States are in consumer electronics, that is low-to medium-technology products, toys, textiles and apparel, footwear, some fertilizers, to name some. The U.S. principal exports are aircraft, consumer electronics, including computers, various agricultural products, some chemicals, machinery, and again to name some.

The composition of trade is not too bad from the United States' point of view. It is a slightly more favorable composition of trade than we have with Japan, where we tend to send in raw materials more than finished goods.

Mr. COYNE. But you have a listing of those that are exported to the United States?

Ms. BARSHEFSKY. Yes, we certainly do, and we can provide you that in detail with a dollar value, if you would like.

Mr. COYNE. Thank you.

It is often said that MFN is really not a good description for this treaty, that there really is not that much of an advantage to countries who experience MFN with the United States. You indicated that there are seven nations, that do not have any advantages with the United States. Could you describe three advantages for nations to have to be granted MFN status by the U.S. Government?

Ms. BARSHEFSKY. I do not know if I would use the word advantages, because, of course, the United States gets MFN from all the nations it grants MFN to. But MFN provides for lower grades of tariffs. For many countries, it also implies those tariffs cannot be raised without compensation, and that is a very important element.

MFN implies that there can be no discrimination among nations who receive MFN treatment, so that, for example, if the United States and Europe both have MFN treatment in China, the tariff rates for both must be the same and treatment with respect to imports must be the same. That would include nontariff barriers. That is extremely important. So, we are looking at stability in the trading relationship and, most critical, nondiscrimination in the trading relationship.

Mr. COYNE. So there are advantages for those nations that do not have MFN?

Ms. BARSHEFSKY. Yes. If I may say, I am happy to provide you with the names of the other seven nations. They are Afghanistan, Cuba, Cambodia, although legislation is currently pending to grant conditional MFN, Laos, North Korea, Serbia and Montenegro, where permanent MFN was revoked in 1992 by legislation, and Vietnam. Those are the only countries currently without any MFN status.

There are, of course, several other countries that actually have MFN but do not receive MFN treatment, for example, Iran, Iraq, and Libya, but it is significant that even they have MFN status.

Mr. COYNE. Thank you.

Ambassador Lord, we heard earlier from Representative Solomon that China is purchasing submarines and airplanes from Russia. Is that a reason of concern for the United States?

Mr. LORD. It is something we keep our eye on, of course. It is of concern and interest. It is of more immediate concern to China's immediate neighbors, where China's increasing capabilities to project power have direct relevance to the Taiwan Strait and the South China Sea, for example, whereas they do not really threaten us. We are vastly superior to China. But anything that concerns our friends and allies, of course, we are concerned about.

Having said that, and while we should keep an eye on China's growing military power, we should not exaggerate it. First, it is very tough to figure out exactly how big they are, because they hide their figures.

Second, there are many indices that suggest that the growth in their military budget has not been as huge as some accounts would suggest. That does not mean it has not been significant.

Third, they are starting from a very low base in terms of technology and equipment. So, they have a long way to go before they are any direct threat to us, but that does not mean we do not watch this carefully and with concern, focussing particularly on major weapons systems or anything having to do in the nonproliferation area, where it is of great concern.

Mr. COYNE. Is it our government's position that we ought to keep these two issues separate, the fact that there is a buildup and trade relations?

Mr. LORD. Yes, we believe so. In dealing with the security aspect, first, we are the preeminent military power in the world, of course, including in the Pacific. We have maintained our 100,000-man force levels. We have reaffirmed our alliance with Japan in the most successful summit with Japan in the last 50 years. We have maintained our other alliances.

Even as we do that as a realistic foundation, we are trying to engage China bilaterally and regionally in the security area. Bilaterally through military exchanges to get a better sense of their intentions, their budgets, their strategic doctrine, to expose them to the U.S. military, to have an impact on nonproliferation where they are important. And second, through regional security dialogs where China has been brought in to try to engage them multilaterally on security problems.

One quick example, last summer, the South China Sea was heating up. Because of the ASEAN Regional Forum, which is a new security dialog in Asia, partly, and also because of strong U.S. and ASEAN statements, that issue was at least temporarily diffused.

So, we want to approach on foundations of firmness but also engagement, and the security area is a good example of that but should be kept separate, in our view, from the trade area.

Mr. COYNE. Thank you.

Chairman CRANE. Mr. Payne.

Mr. PAYNE. Thank you very much, Mr. Chairman, and Madam Ambassador and Mr. Secretary, thank you both very much for your testimony.

I want in my few minutes to talk just a little bit about the textile and apparel industry. There are some real concerns that the people who I represent have concerning our relationship with China in textiles and apparel. Madam Ambassador, you stated last month when you had the preliminary retaliation list that Chinese apparel products comprise the largest single category of pirated goods seized by U.S. Customs officials.

We know that we and USTR have struck a very good bilateral textile agreement with China. However, we also hear from Customs that between \$2 and \$4 billion a year is transshipped from China to the United States, circumventing that agreement. The industry thinks that there may be more than that, perhaps as much as \$8 billion a year.

This comes at a time when the industry has agreed, as in the GATT Agreement, over 10 years to give up a quota system, do away with the Multifibre Agreement. For a variety of reasons, what this has meant to an industry is that in the last 16 months, more than 170,000 jobs have been lost in this country. So it is a time, that people are looking at the laws, the agreements, making sure that they are going to be enforced, and to look at market access opportunities to see how we might sell our goods in other countries as we move into this globally competitive environment.

I have always supported MFN status for China. I do think that constructive engagement is the right way for us to proceed. But, at the same time, I need to have some understanding about where we are going relative to some of these concerns with China. If you could elaborate on that, and also any kind of market opening discussions or opportunities that we might have for us to sell our products in that country, I would appreciate your comments on that, as well.

Ms. BARSHEFSKY. Thank you. Last month I indicated that the single largest pirated crop that Customs seizes every year from China is textiles, usually a trademark violation but other violations were found, as well. The interesting point there, of course, is that these are Customs seizures. That is to say, we are getting much better with respect to our own border enforcement at attacking illegitimate goods.

We are currently, with respect to the issue of transshipment, in consultations with the Chinese over about \$1 billion in potentially transshipped goods. The interesting feature about this current negotiation is that this is the first time we will be in a position, if these allegations prove true, to triple-charge China's quota with respect to these potentially transshipped goods. So, these are very important consultations and I think China understands full well that if the evidence is there, we will, in fact, triple-charge their quota, as we have a perfect right to do.

The textile agreement we entered into has proven quite effective with China. Last year, imports from China were down by about 5.6 percent. That is about a 17-percent increase in apparel imports from the Caribbean countries. So, this was not because our market

was shrinking in size. There was a shift from China, which in some areas is a less competitive producer.

With respect to market access efforts into China, I would ask that our chief textile negotiator, Ambassador Hayes, get in touch with you on the status of those discussions.

Mr. PAYNE. Thank you very much, Madam Ambassador. I look forward to continue to work with you on this important subject.

Ms. BARSHEFSKY. Thank you.

Chairman CRANE. Ms. Dunn asked me to put this question to you both. If MFN were discontinued, would that have an impact on Hong Kong and Taiwan, and if so, what kind?

Ms. BARSHEFSKY. I think there is no question, if MFN were revoked, the impact on Hong Kong would be potentially quite severe. Hong Kong itself estimates substantial diminution in their GDP if MFN were revoked, as well as substantial disruption with respect to trade ties.

The impact on Taiwan is somewhat less clear, if only because Taiwan is not the transshipment point that Hong Kong is for Chinese goods, but there is no question there would be some degree of adverse impact on Taiwan. That is on the economic side. I think Ambassador Lord might want to add to that, though.

Mr. LORD. In addition to that, with respect to Hong Kong, you would have the psychological impact as they head toward the July 1, 1997, turnover to Chinese sovereignty. It is a rather fragile situation as it is, and so beyond the economic would be the political and psychological impact. As I mentioned in my opening remarks, Governor Patten and Martin Lee, who are not known to be apologists for Beijing, nevertheless were very strong on the need to extend MFN, precisely because of your question of the tremendous economic and other fallout that would occur there.

Taiwan itself, I do not believe, has come out publicly on this issue, but it is fair to say they would not like to see MFN revoked, and it is partly for economic reasons. I agree with Ambassador Barshefsky. The impact probably would not be quite as severe or as easily quantifiable, but certainly their own trade would be disrupted. There are some production factories in China that export to us that would be affected, as well. So, this would have an impact on Taiwan, but I think the blow to Hong Kong is even more serious.

Chairman CRANE. I want to thank you both for your patience and for your willingness to come here and testify this morning. With that, you folks are free to leave.

Ms. BARSHEFSKY. Thank you, Mr. Chairman.

Mr. LORD. Thank you.

Chairman CRANE. You are welcome.

Chairman CRANE. I will invite our next panel of colleagues, Christopher Smith, Frank Wolf, Marcy Kaptur, Christopher Cox, Dana Rohrabacher, Thomas Ewing, and Joseph Scarborough, if you will all be seated.

We will proceed in the order that I just called out on our list of witnesses here. Mr. Smith, you open up, please, and Mr. Wolf will follow you.

STATEMENT OF HON. CHRISTOPHER H. SMITH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW JERSEY

Mr. SMITH. Thank you very much, Mr. Chairman. I thank you for this opportunity to appear before the Subcommittee.

Mr. Chairman, the Clinton administration celebrated the delinking of most-favored-nation status from human rights in 1994. It was the most egregious example of a broader policy in which the U.S. Government has brought about an almost total delinking of human rights from other foreign policy concerns. Although the current administration justly criticized its predecessors for subordinating human rights to other concerns in China and elsewhere, Bill Clinton called it "coddling dictators". The Clinton administration, however, has coddled as few have coddled before.

And yet, not all the blame for the sharp departure away from human rights and toward an amoral foreign policy falls on the Clinton administration. The very forces that have influenced the Clinton administration to do the wrong thing, short-sighted business executives who put short-term profits ahead of enduring values, career diplomats who think their job is to deal with tyrannical regimes on whatever terms seem possible, and that human rights are a distraction will be actively engaged in trying to have the same influence on a Republican administration after January of next year.

They are actively engaged in trying to influence the Congress today on the question of MFN. Each year as the time approaches for Congress and the President to review the question of MFN for the government of the PRC, Members of Congress are approached by representatives and business interests who support it. Their argument is that "constructive engagement" is the best long-term strategy for promoting human rights in China.

The biggest problem with this strategy is that it has not yet succeeded in the 20 years or so that our government has been trying it. Our government has been embroiled in a 25-year one-way love affair with the Communist regime in Beijing. There is no question that increased contact with the West has changed China's economic system, but there is little or no evidence that it has increased the regime's respect for fundamental human rights.

In discussing human rights strategies with people who do business in China, I find it helpful to ask the following questions. One, what specific opportunities have you taken to raise human rights concerns with your trading partners in PRC government contacts? Specifically, what steps have you taken to protest the continued imprisonment of Tiananmen Square dissidents and other political prisoners? What have you done to protest the use of torture, forced abortion and forced sterilization, harvesting of organs from executed prisoners, and the arrest and detention of such great and brave people like Wei Jingshen?

When I sat down with some members of the U.S. Chamber of Commerce in Beijing 2 years ago, one of three human rights trips to China, I was met with blank stares when I said, have you ever sat down and spoken with a dissident and heard what his perspective or her perspective might be on human rights in China?

Also, I think it is useful to ask, what charitable contributions have you, the business community, made to the Laogai Research

Institute, Democracy in China, Human Rights Watch, Amnesty International, Freedom House, the China programs of the National Endowment for Democracy, and other nonprofit organizations devoted to freedom and democracy in China? Where do you draw the line? It is a fair question. Where do you draw the line? Are there any human rights violations so loathsome or any pattern so clear and strong that you would stop doing business in the People's Republic of China?

Ambassador Winston Lord said a moment ago that the Chinese could reach a point where they might isolate themselves. I think that is highly unlikely with this administration, because as one abuse after another becomes manifest and is made known, we just make a statement, we say it is not good, and business as usual continues.

Unfortunately, the answers to these questions, I would submit, usually show that our commercial engagement with state-controlled entities in the PRC has not, in fact, been constructive as it might have been.

Just let me point out, Mr. Chairman, because my time is almost up, that our own country reports on human rights practices makes it very clear that the PRC's performance continues to deteriorate in the area of human rights, that significant regression has been the order of the day, not significant improvement. Things have not gotten better for the average person in China.

Religious freedom has gotten worse. When Li Peng issued his two decrees, 144 and 145, 2 years ago, the crackdown on the Evangelical Church and the crackdown on the Catholic Church began in earnest. They see that as a threat because people are willing to endure punishment for their faith, so the regime has gone down with an iron fist on people of faith. The same is true for the Buddhists in Tibet and the continued genocide that has occurred in that country.

It seems to me, Mr. Chairman, that the unintended but inescapable message that our dealings with the Chinese Communists is, and this emerges from the objective data, even where our words and actions have been strong as well as where they have been weak, is that we will tolerate the destruction and the devastation of many lives in China only if they will just stop pirating software. We put profits above people, and we talk about isolation.

They need our markets, Mr. Chairman. The balance of trade is \$35 to \$40 billion in their favor. They have to find markets. They are not going to find those markets in Europe or Australia or in other Asian countries. They are going to find them here. We have real leverage. We have failed to use it. I believe that we ought to take away MFN.

Thank you, Mr. Chairman.

Chairman CRANE. Thank you, Chris.

Frank.

STATEMENT OF HON. FRANK R. WOLF, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF VIRGINIA

Mr. WOLF. Thank you, Mr. Chairman.

Last year, we gave China MFN and what has happened? We learned that the Chinese Communist state-owned companies with

close ties to the Chinese military were attempting to smuggle AK-47 assault weapons into the United States and sell them to gangs, gangs that could kill American men and women and boys and girls. We learned the same smugglers were willing to sell the same violent gangs hand-held surface-to-air missiles, "red parakeets" that could take out 747s.

Since that time, we learned that the Chinese Government sold ring magnets for use in enriching uranium and M-11 missiles to Pakistan. We learned that the Chinese government was supplying nuclear technicians and equipment to Pakistan. Since that time, we learned that the Chinese Communists sold patrol boats to Iran. Since that time, we learned that the Chinese companies are helping the Iranian government to build poison gas factories. Since that time, we learned that the Chinese Communist government is making deals with Russia to buy SS-18s.

Since that time, we have obtained more evidence that babies are dying of neglect and deprivation of medical care. We saw the pictures of them tied in the cribs. Since that time, we heard of the persecution of Christians and people of faith, the persecution of the Catholic Church. There are bishops in jail. There are priests in jail. There are Protestant pastors in jail. There are even Evangelicals in jail. As Congressman Chris says, no one in the business community speaks out on the issue at all.

Since that time, we learned that the Public Security Bureau circulated an arrest warrant with the names of 3,000 names of Protestant Evangelical Christians. Nothing more has changed.

Since that time, we continue to hear the case of Chinese Christians being arrested, Catholic priests arrested, bishops again arrested, Moslem protesters arrested. Since that time, Tibet has been plundered. Tibet monks have been arrested. Nuns have been arrested. Since that time, many have been tortured or forced to strip off their clothes before beatings and routinely raped in jail. Since that time, the Chinese government arrested and detained Harry Wu. Since that time, just last year, the Chinese Communist human rights abuses continue.

Public executions—we did a "Dear Colleague" letter asking the whole Congress to come and see the public executions that we have on tape. Seven Members of Congress took the time to come. In 1983, when Ronald Reagan gave the "evil empire" speech in Orlando, if we had had a photo showing the Soviet Communists shooting people in Perm Camp 35, everyone would have come because everyone in Congress and everyone in the administration was very interested in it. This year, we get no one to come.

No Member of this Subcommittee in good conscience ought to vote—if you are going to give them MFN, I think you ought not to vote on this issue until you see the 13-minute film. They line them up, they put a pistol in the back of their head, they shoot them, they hit the tarp, they cut them open and they take the kidneys and their cornea. That is all since the time we have given them.

There are more gulags in China than there were in the Soviet Union when Solzhenitsen wrote "Gulag Archipelago." Intellectual technology—it goes on and on.

Fortunately, the American people are farther ahead than this administration, and quite frankly—I should not say this, but I am—

if I were Winston Lord, I would quit. I would leave my job, because to defend a fundamentally immoral policy of what they do year after year, when more Christians are persecuted—the fact is, the endangered species in this world are Christians. When Christians get persecuted, not one business speaks out. Motorola will not speak out. Boeing will not speak out. McDonnell Douglas will not speak out. They will all go to church or Mass on Sunday but no one speaks out.

Do you remember the rally that we had in the eighties? Do you remember the rally on the mall when 250,000 people came because of the persecution of those of the Jewish faith? We stood together in solidarity. What Member of Congress in the eighties, what administration, what assistant secretary would have had the nerve to publicly say that we should give MFN to the Soviet Union when Sharansky was in Perm Camp 35 and Sakharov was under house arrest? No one would have. Now we even see Members of Congress saying that we should give permanent MFN.

Chris was right. The business community would not speak out for Harry Wu. They would not speak out for the Catholic priests. They would not speak out for the Evangelical pastors. They will not speak out for the Buddhists that are persecuted in Tibet. They will not speak out when AK-47s and shoulder-holster missiles are being sold to street gangs in Los Angeles. What will they speak out for?

I urge this Subcommittee to not give them MFN. But if you do give them MFN, condition it or do something, because if we do not do it, next year, I will predict you will see the Chinese army marching into Hong Kong, and then you are going to ask yourself, did you do the right thing?

Do not give them MFN this year. There has been no improvement. I say that as someone who last year introduced a resolution to take away MFN, then voted against it and voted to table it because I thought we had worked out a fair compromise. Nothing ever happened.

Do not give the Chinese Communists MFN. If you would not give the Communists in the Soviet Union MFN in 1980, do not give these people MFN in the nineties. I just submit the rest of my statement, if I may.

[The prepared statement follows:]

**Statement of Rep. Frank R. Wolf (R-VA)
Before the House Subcommittee on Trade
June 11, 1996**

Hearing on China's Most-Favored-Nation Trade Status

Thank you Mr. Chairman and members of the subcommittee for the opportunity to testify before you today.

Last year, I introduced a resolution to disapprove President Clinton's decision to extend Most-Favored-Nation trading status to the People's Republic of China (PRC). I later voted to table it. Why?

Because, after negotiating with Chairman Bereuter of the House Subcommittee on Asia, Rep. Pelosi and others, I believed that we had crafted a piece of legislation which would, for the first time, unify the pro-MFN and anti-MFN forces and send a strong message to China. The U.S.-China Policy Act was an attempt to put Congress on record in a unified way about the problems in the U.S.-China relationship and force administration accountability for its failed policy. Had the bill been enacted, for the first time ever, the U.S. Congress would have gone on record in support of China's democracy movement. In exchange for this legislation (which passed the House with an overwhelming vote of 416-10), I voted to table my own resolution, in effect, voting to give MFN to China for another year. Unfortunately, this bill was not pushed in the Senate and it died. China got MFN and avoided criticism.

And what happened this year?

We learned that Chinese state-owned companies with close ties to the Chinese military were attempting to smuggle AK-47 assault weapons into the United States for use by violent L.A. street gangs. Guns that could kill American boys and girls.

We learned that these same smugglers were willing to sell to the same violent gangs hand-held surface-to-air missiles -- Red Parakeets -- powerful enough to shoot down a 747 jumbo jet. These missiles can be launched from shoulder holsters and are also capable of taking out tanks.

We learned that the Chinese government sold ring magnets for use in enriching uranium and M-11 missiles to Pakistan. We also learned that the Chinese government is supplying nuclear technicians and equipment for a Pakistani plutonium reprocessing plant which in the words of Bill Triplett, a former counsel to the Senate Foreign Relations Committee, would provide "one stop shopping for nuclear war, courtesy of the Chinese."

We learned that China sold patrol boats to Iran and that Chinese companies are helping the Iranian government build poison gas factories.

We learned that China is making deals with Russia to buy SS-18 missiles.

We have obtained more evidence that babies are dying of neglect, deprivation of

medical care and starvation in Chinese state-run orphanages. We saw pictures of starving children tied to their cribs to die.

We hear that the persecution of Christians and other people of faith is intensifying. The Chinese government issued strict new religious guidelines in January, that Chinese religious officials have vowed to pull up house churches by their roots and that Chinese Christians are experiencing the worse persecution since the pre-Deng period of the late 1970's. We learn that the Public Security Bureau is circulating an arrest warrant with the names of 3,000 names Protestant Evangelical Christians.

We continue to hear case after case of Chinese Christians being arrested, detained, imprisoned, and sent to labor camp for practicing their faith. The number of such cases are increasing.

Christian churches are being bulldozed and that students and teachers who refuse to join China's "official" Catholic church are purged from schools.

The Chinese government is brutally suppressing Muslim protestors in the Western province of Xinjiang.

Repression in the region of Tibet has intensified and that in 1995, 50 percent more Tibetans were arrested for political offenses than in the previous year. The Chinese government is giving out longer sentences for political offenses in Tibet, has tightened control over nunneries and monasteries and demanded declarations of loyalty from thousands of Tibetan people.

We continue to hear stories of Tibetans being tortured in prison by electric shock, severe beating, self-tightening handcuffs and by being forced to assume difficult and painful positions. We received reports that Tibetan monks and nuns are required to strip off their clothes before beatings and are routinely raped in jail.

We learned that the Chinese government had arrested and detained American human rights activist Harry Wu.

China's human rights abuses continue unabated. Public executions are a standard way of keeping the masses in line and that prisoners are shot in the back of the head with a pistol at point-blank range in front of thousands of observers.

We know that when these prisoners die, doctors are standing by to take out their kidneys or corneas which are then sold to foreign buyers for transplantation for as much as \$30,000 a piece.

We continue to hear reports that population officials force women to have abortions to keep the population down and deny medical and care and economic opportunity to families that refuse to abide by this draconian policy.

China has not dismantled the laogai, a system of gulags larger than that which existed under Stalin's Soviet Union but which same the same purpose -- to brainwash through backbreaking labor and brutal conditions.

China has not fully complied with the 1992 Memorandum of Understanding requiring that U.S. officials be allowed to inspect prisons suspected to use slave labor to manufacture goods for exports. We know that these goods continue to come into the United States;

China has blatantly disregarded the 1995 intellectual property agreement and that Chinese factories continue to rip off American technology, software, and other copyrighted material.

We know that almost all leaders of China's democracy movement are either in detention, in labor camps, in exile or under house arrest. Those who have supposedly been released from jail are still subjected to intense surveillance and restrictions of movement and speech. We watched as China's most prominent dissident Wei Jingsheng was sentenced to 14 years in prison; Chen Ziming's medical parole was revoked; and Wang Dan disappeared without a trace. Human rights observers say this is the worst time for dissidents since the immediate aftermath of the Tiananmen Square incident.

So Mr. Chairman, what improvements have we extracted through our current policy? The answer is none. In all three areas of concern, human rights, proliferation and trade, the situation has worsened..

It seems to me that Congress and the administration has failed to learn from history. Nobody on this subcommittee or in Congress would have gone down to the floor and voted to give MFN to the Soviet Union when Natan Sharansky was in Perm Camp 35 or Andrei Sakharov was under house arrest. It would have been unthinkable.

Last week, six prominent Chinese dissidents, all of whom had been student leaders in Tiananmen Square, came to Congress with this message: Western pressure works. When Western pressure is applied firmly and consistently, prison conditions got better. When Western pressure is applied firmly and consistently, the tight reins of repression were loosened.

Yet, today, there are some in this Congress and the administration who now advocate giving China permanent MFN. Do we ever learn?

Unconditional MFN is the backbone of a failed U.S. policy toward China.

How much will it take for this Congress to wake up and focus on the threat that China's actions pose to our national security, our belief in democracy and our continued economic prosperity? How long do we want to continue helping China create a powerful economy and a powerful military unchecked by political transparency and a rule-of-law based system?

There is no evidence that unconditional MFN is advancing U.S. interests with regard to China. I cannot support it this year and neither should this subcommittee.

Let's revoke MFN and engage China on our terms. Thank you.

Chairman CRANE. Thank you, Mr. Wolf.
Ms. Kaptur.

**STATEMENT OF HON. MARCY KAPTUR, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF OHIO**

Ms. KAPTUR. I am very impressed with Congressman Wolf's testimony, and I would just say that the large corporations of our country, including Boeing, not only do not stand up for Christians, they do not stand up for democracy.

This is not in my testimony, but I had dinner with the head of Boeing one night here in the Capitol one and a half to 2 years ago and I asked him why, as one of our premier business leaders, he did not speak out on some of these concerns. He told me that he had had dinner with the premier of China and that he played the violin and any man that had music in his heart could not be all bad. I will never forget that.

Mr. Chairman, I appreciate the 5 minutes. I wish I had 15 minutes. But, I am one Member of Congress who strongly believes that a new course must be struck in our relations with China, a course that reflects the rule of law and everything that we stand for, if we stand for anything as a people. After 20 years, China MFN has proven to be too thin a reed on which to base our bilateral relationships with China.

It is unfortunate that you and your Subcommittee Members are put in this position. This issue should not be before you in this way. Our foreign policy should be based on three tenets, obviously, realism in the world we live in; reciprocity, which is something I want to talk about here; and most importantly, the development of democratic principles beyond our shores.

But what has been happening is we as a country have been using trade policy as an indirect means of creating foreign aid, because you could never get the type of assistance that is needed in the Chinese situation through this Congress today. Because the burden of this misguided trade policy are borne so unequally in our society—Mr. Payne was talking about his concern for textile workers—there is no question that China MFN contributes to the undermining of our own middle class and sense of fairness to our own people.

China MFN bolsters and perhaps prolongs the existence of authoritarian regimes, as in China, while undermining our own domestic economic interest, which is where I want to focus on in my remarks today. These charts are attached to your testimony.

Since 1974, our trading relations with China were supposed to have improved if we just renewed MFN for one more year. This has not happened. Those red lines indicate what has happened with our trade deficit with China since 1974. Just in the past decade, our trade deficit has increased with them by over 1,000 percent. That means imports minus exports, because our exports, even though they have been at a flat or slightly increasing level, which is the bottom green line in that chart, the imports that have been coming in here have been increasing at an alarming rate, getting larger each year in total volume as well as real rate.

This year, that deficit is projected to be over \$40 billion. In fact, 33 percent of China's exports come to our country. There are 250 million of us. There are 1.25 billion of them. Just mathematically,

what is happening here is unsustainable in the long term. Only 2 percent of our exports go into that market.

Right now, that trade deficit with China comprises one-fourth of the \$160 billion trade deficit that we sustain with the world. It results in lost jobs here at home, a ratcheting down of our wages. Let me point out that the effective tariff rate under MFN will be about 2 percent. Their effective tariff rate against us, depending on the goods, is between 30 and 40 percent.

There is no reciprocity in this agreement. Why do we sustain this as a society when we get nothing in terms of the development of a free market, a free society on the other end? We are putting the gun not just to the Chinese people but to the heads of our own people who are losing these jobs all over the United States of America.

In terms of the exchange rate, and I just want to put this on the record because it is in my testimony, China has two exchange rates, the one that they officially say is theirs and then the real one, which is the one that they manipulate. The exchange rate they have been using effectively results in a subsidy to their exporters valued at over \$15 billion, which makes it so much more difficult for our people to get our goods into the Chinese market, and effectively gives China such an incredible subsidy that benefits their exporters, including their army, which is well documented in these figures.

My time has expired, but our testimony documents the other nontariff barriers. I have only talked about tariff barriers and exchange rates. The nontariff barriers that we include in our testimony are important for you to reflect upon.

I just say in conclusion, Mr. Chairman, I would hope that whatever happens on your Subcommittee, or in in Full Committee, that you give us a chance to fully debate this on the floor of Congress so that we can bring up the concerns of the Members that are here before you and others in a much more complete way. I think that this relationship is exceedingly important and it does not deserve to be low-balled inside this Congress.

Thank you very much for the opportunity to appear.

[The prepared statement and attachments follow:]

**TESTIMONY ON RENEWAL OF CHINA MFN
CONGRESSWOMAN MARCY KAPTUR (D-OH)
SUBCOMMITTEE ON TRADE
WAYS AND MEANS COMMITTEE
JUNE 11, 1996**

Mr. Chairman, thank you for inviting me to testify before you and your Subcommittee today on the question of whether to renew China's Most Favored Nation status for another year. Given the explosion in our trade deficit with China, and the increasing potential for military conflict in Asia, the vote on China MFN is easily one of the most important votes of our day. I am one Member of Congress who strongly believes that a new course must be struck in our relations with China -- a course that reflects the rule of law, and benefits the wider populace of both our great nations rather than the base interests of a few.

After twenty years, China MFN has proven to be too thin a reed on which to base our bilateral interests. I will vote against renewal of China MFN as a first step in shaping a new foreign policy path with China. U.S. foreign policy must be based on three tenets: realism, reciprocity, and the development of democratic principles.

The United States can no longer afford to use our trade policy as an indirect means of foreign aid. And because the burden of this misguided trade policy are borne so unequally in our society, China MFN contributes to the undermining of our middle class and sense of fairness. Finally, China MFN bolsters, and perhaps prolongs, the existence of authoritarian regimes such as found in China, while further undermining our own domestic economic interests. Renewal of China MFN simply makes no sense.

Congress has been voting annually on MFN since 1974 when Jackson-Vanik was signed into law, a law which tied the internal politics of non-market economies to their external trading relations with the U.S. It was a classic carrot-stick approach to policy. The carrot was the U.S. market. The stick was taking away a nation's Most Favored Nation trading status. While China has been gorging itself on the carrot of the U.S. market, somewhere along the line we lost the stick to affect change in regard to China's attitude and policies towards the U.S. and her own citizens.

THE GROWING U.S.-CHINA TRADE DEFICIT

Every year since 1974, President after President, from Ford to Clinton, has stood before Congress and the American public to assure us that our trading relations with China will improve IF China MFN is renewed just one more year. This, of course, has not happened.

Let me refer to the first chart attached to the back of my

testimony. Over the past decade, the U.S. has recorded over a 1,000 percent increase in our trade deficit with China. And the rate of disadvantage to the U.S. increases each year. In 1996, the U.S.-China trade deficit is projected to top \$40 billion dollars, breaking yet another record. Thirty-three percent of China's exports, one of out of every three products, end up on U.S. shelves. At this pace, China will surpass Japan in the next two to three years as the nation with which we have the biggest bilateral trading deficit.

May I remind you that trade deficits are a form of debt, and like all debt, they must be repaid with interest. Last year, the U.S. owed the world over \$160 billion because of our trade deficit in goods. That is more than our annual federal budget deficit. In 1995, China's \$34 billion share of our foreign debt due to the trade deficit was almost a quarter of the total, and projected to grow rapidly. Like the budget deficit, the trade deficit, if left unchecked in its growth, will result in more lost U.S. jobs, the ratcheting down of U.S. wages, and increasing pressure for a rise in domestic interest rates in order to attract the offsetting foreign capital to our current account deficit. I do not need to tell you what impact any rise in interest rates has on economic growth and America's future. Quite frankly, we are mortgaging the future of the United States to countries like China with which we continue to run unsustainable trade deficits.

Many of the supporters of China MFN will point to the growth of U.S. exports to China as a reason to renew China MFN. I would like to refer you now to the second chart attached to my testimony. While U.S. exports to China have increased, the growth has been fairly flat in relation to the explosion of Chinese imports flooding into our country. While China exports at least 33 percent of its goods to the U.S., less than 2 percent of our exports are destined for China, less than tiny Hong Kong or Taiwan. Using only percentages, it is therefore somewhat disingenuous to claim a huge increase in our exports to China while starting from such a low starting base. If you will recall, this was a favorite debate point utilized by Japan during the recent auto dispute, claiming huge increases of 100 percent while, in actuality, only allowing in a few more U.S. automotive exports. Measured in absolute terms, it quickly becomes obvious that our exports to China are, in fact, not growing fast enough, as this gap in the chart yawns even larger with each passing year.

BARRIERS TO TRADE WITH CHINA

It is not difficult to understand why U.S. exports are continuing only to trickle into China. China is a closed, command economy. For example, while the U.S. charges an average MFN tariff rate of 2 percent or less on China's imports into the U.S., China charges average tariff rates of 30 to 40 percent on U.S. exports into China. With U.S. exports facing tariff rates up to twenty times greater

than our own tariff rates, it is no wonder that U.S. exports to China remain flat.

There is a further discrepancy when one considers the exchange rate between the U.S. and China. While the U.S. has only one fully-convertible currency, the dollar, China has at least two separate exchange rates for the Yuan -- the official rate for foreigners and the unofficial rate for the Chinese themselves. In 1993, the last year for which I have data, the official exchange rate was 5.7 Yuan to the dollar. The unofficial rate in 1993 -- the rate set by the market and not the government -- was 8.4 Yuan to the dollar. There is a difference of almost 50 percent.

This gap between the official Chinese exchange rate and the unofficial exchange rate serves to: 1) act as a subsidy for officially-approved importers and exporters in China's trading sector, namely the Chinese government itself; and, 2) act as a non-tariff barrier to U.S. exports competing with domestic goods in China. The price of U.S. exports sold in China are inflated by nearly half because of the difference between the official and unofficial exchange rates. Moreover, with the U.S. buying \$31.5 billion worth of Chinese goods in 1993, mostly at the official exchange rate, China's exporters received a subsidy worth at least \$15 billion dollars from what the market price would have been.

Finally, after paying high tariffs, and after factoring in the 50 percent exchange rate subsidy, U.S. exports face significant non-tariff barriers to China's market, including quotas, import licensing agreements, and other regulations. Let me quote from the United States Trade Representative's "1996 National Trade Estimate Report On Foreign Trade Barriers". It states: "China still maintains a large number of non-tariff administrative controls to implement its trade and industrial policies." The USTR report goes on to state that non-tariff barriers are administered at national and subnational levels, and are annually negotiated and set by China's central government.

The impediments to trade with China are not limited solely to tariffs, non-tariff barriers, and the gap between the official and unofficial rate of the Yuan in China. The USTR has documented abuses in the setting of arbitrary standards, testing, labeling and certification. Government procurement in China remains largely closed to foreign competition. China engages in export subsidies, theft of intellectual property, and employs an array of barriers to services and foreign investment. In short, China is notorious for engaging in predatory, anti-competitive practices.

WHO BENEFITS FROM CHINA MFN RENEWAL?

Having established the true nature of our trading relationship with China, rather than some glorified version concocted for media purposes, the obvious question to then ask is: Who benefits from

renewal of China MFN?

American workers, who must compete with sweatshop labor and this flood of Chinese goods into the U.S., certainly do not benefit from China MFN. While the supporters of China MFN are quick to cite the jobs created by U.S. exports, little is said of the good jobs destroyed by this policy. The Administration states that 20,000 U.S. jobs are created for every billion dollars of trade. It is obvious to most Americans that the reverse is also true -- 20,000 U.S. jobs can also be destroyed by every billion dollars in imports. In 1996, with a projected trade deficit of \$40 billion with China, 800,000 Americans can expect to lose their jobs because of our trade deficit with China. Who in the U.S.A. calls these casualty figures? No one.

Let me illustrate this point with an example from the U.S. textile and apparel industry. Last year, the U.S. imported nearly \$4.5 billion of articles of clothing, apparel and accessories. Many of these goods were made in sweatshops in China, with Chinese workers, mostly women, making maybe 10 cents an hour. You would recognize the brand names -- Nike athletic shoes, Barbie Dolls by Mattel, Sara Lee products, and so on.

In the United States, the textile and apparel industry teeters on the brink of extinction because of trade deficits with China and other nations that support sweatshop labor. Over the past twenty years, approximately 300,000 workers in the textile industry -- mostly women located in rural areas where jobs are scarce -- have lost their jobs. Over 40 percent of the industry is no longer employed. American workers in the textile industry, who might make \$5 an hour, simply cannot compete against slave labor conditions in China. For these American workers, China MFN, and another \$5 billion textile and apparel deficit with China this year, will mean another 100,000 lost jobs.

If the majority of American workers do not benefit from renewal of China MFN, who does? Supporters of China MFN point to American cost savings for American consumers. But I challenge anyone to come shopping with me at my local department store and show me a price difference between one good made in China and the exact good made in the U.S. There is no price difference.

We are therefore left with a handful of U.S. multinationals, primarily importers which outsource most of their production in China, as the true beneficiaries of China MFN.

Companies like Wal-Mart have a big stake, a billion dollar stake, in the renewal of China MFN. Wal-Mart is, in fact, China's biggest customer, relying on 700 sweatshops located in China to manufacture its products, only then to import these same goods back into the United States. One thousand shipments a year from China end up on Wal-Mart's shelves.

People like David Glass, the CEO of Wal-Mart who made over a million

dollars last year, benefit from the renewal of China MFN. Or the other top five executives of Wal-Mart who together made over three million dollars in 1995.

And more, the renewal of China MFN will benefit the Chinese government, and more specifically, the People's Liberation Army, which dominate China's trading sector and China's economy as a whole. As reported by the CIA, state-owned enterprises account for 50 percent of China's industrial output; collective firms represent another 40 to 45 percent of industrial output. Together, the "state-owned and collective" sector represents over 90 percent of China's industrial economy.

CONCLUSION

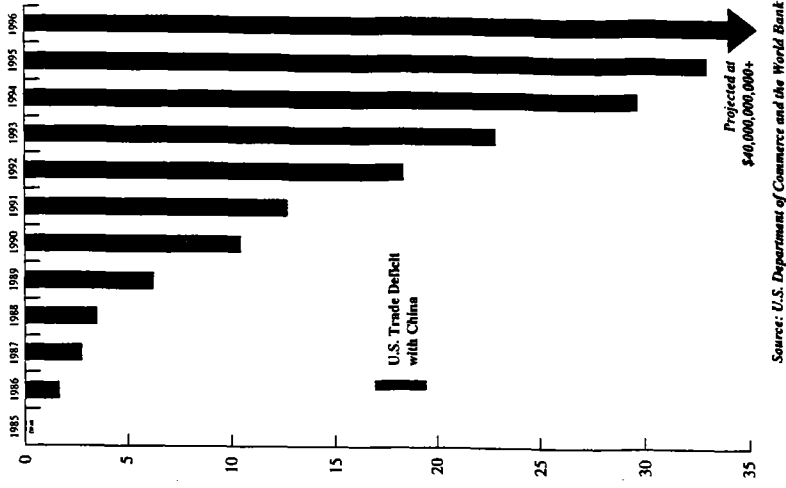
In conclusion, U.S.-China policy, rooted in China MFN, is unsustainable, and even dangerous, over the long-term. Renewal of China MFN for another year will do nothing to achieve reciprocity, and even less to develop a free market in China or democratic institutions our nation claims to represent. In fact, given China's record over the past year -- i.e. breaking almost every agreement that China has entered into with the U.S. -- China MFN may even exacerbate tensions with China by reducing the leverage which the U.S. has at our disposal.

On economic merits alone, China MFN should be revoked. China remains a closed economy which actively keeps U.S. exports and investment from entering its market. Reciprocity in our trading relations with China is non-existent. China's idea of MFN is to charge tariffs on U.S. goods that are twenty times greater than U.S. tariffs on China's imports, and to set up a two-tier exchange rate system which serves as both a non-tariff barrier and subsidy. Finally, China is actively seeking to expand its own exports by engaging in predatory practices, such as dumping and producing counterfeit goods.

Most importantly, it should be recognized that China MFN has costs here at home -- lost U.S. jobs, erosion of our manufacturing base, growing debt, to name a few. It is my firm belief that these costs outweigh any benefits accrued to a few U.S. multinational corporations.

A recent Wall Street Journal/ NBC News poll indicated that over 60 percent of Americans demand improvement from China before renewing China MFN for another year. Shouldn't we listen to our people for a change? China remains a closed economy ruled by an authoritarian, Communist regime which regularly disregards the rule of law. This fact is not going to change unless we change our policy towards China. We should start by revoking China's MFN status this year and return to the negotiating table from a position of strength. Let's use our market power to our advantage, and to promote reciprocity, democracy and the rule of law.

The Thousand-Percent Increase: U.S. Trade Deficits with China, 1985-1996



TOP IMPORTS FROM CHINA

- Electrical machinery
- Toys
- Footwear
- Clothing

TOP EXPORTS TO CHINA

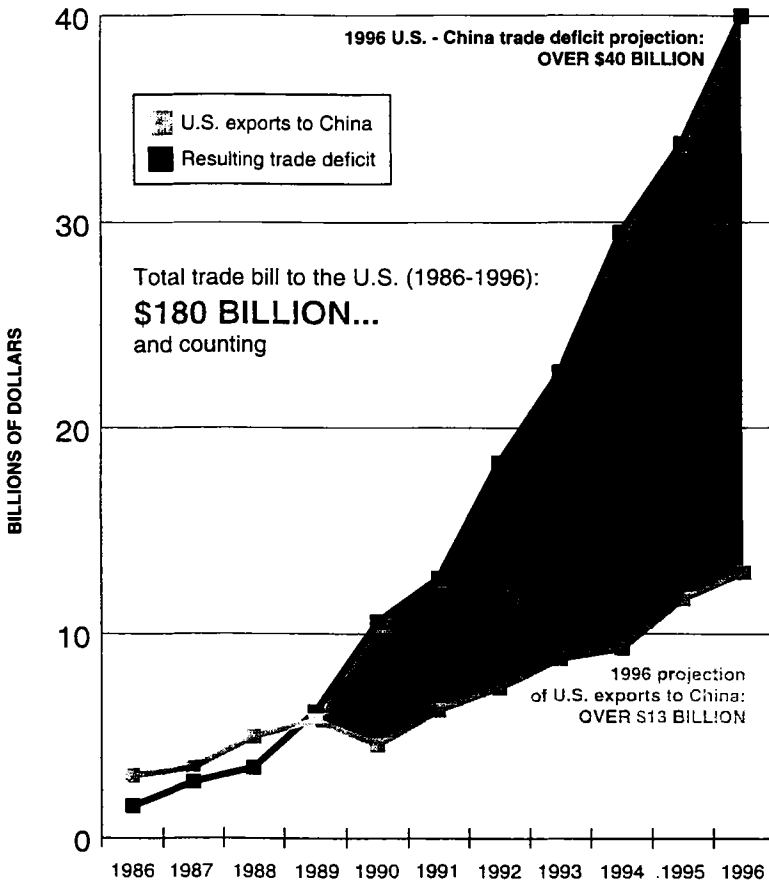
- Nuclear reactors/machinery
- Cereals
- Electrical machinery
- Fertilizers

Who needs whose market more?

FACT:

33 percent of China's exports go to the U.S.
Only 2 percent of U.S. exports go to China.

READ BETWEEN THE LINES: **China's Imports Into the U.S. Have Exploded** **As U.S. Exports Trickle Into China** **1986-1996**



STATISTICAL ANNEX

Table A2.8: TRENDS IN EXCHANGE RATES

Year- quarter	Official exchange rate (Yuan/\$)	Secondary market rate (Yuan/\$)	Weighted exchange rate for exports (Yuan/\$)	Real effective exchange rate (official) 1980 = 10	Real effective exchange rate (secondary market) (1980 = 10)	Nominal effective exchange rate (official) 1980 = 10	Nominal effective exchange rate (secondary market) 1980 = 10
1987-I	3.72	5.25	4.39	4.05	2.87	5.41	3.84
1987-II	3.72	5.3	4.42	3.96	2.78	5.31	3.73
1987-III	3.72	5.46	4.49	4.07	2.78	5.44	3.71
1987-IV	3.72	5.61	4.55	3.97	2.78	5.24	3.48
1988-I	3.72	5.7	4.59	3.97	2.64	5.17	3.38
1988-II	3.72	6.3	4.86	4.13	2.59	5.23	3.09
1988-III	3.72	6.6	4.99	4.67	2.44	5.60	3.16
1988-IV	3.72	6.65	5.01	4.72	2.63	5.48	3.07
1989-I	3.72	6.65	5.01	4.95	2.64	5.67	3.17
1989-II	3.72	6.6	4.99	5.23	2.77	6.06	3.42
1989-III	3.72	6.55	4.97	5.24	2.95	6.36	3.61
1989-IV	3.89	5.9	4.77	4.86	2.98	6.16	4.07
1990-I	4.72	5.91	5.24	3.93	3.21	5.26	4.20
1990-II	4.72	5.81	5.20	3.96	3.14	5.45	4.43
1990-III	4.72	5.8	5.20	3.70	3.22	5.27	4.39
1990-IV	4.97	5.7	5.29	3.33	3.08	4.84	4.24
1991-I	5.22	5.8	5.68	3.19	2.92	4.75	4.33
1991-II	5.31	5.84	5.73	3.33	2.91	4.95	4.33
1991-III	5.36	5.87	5.77	3.30	3.03	4.93	4.51
1991-IV	5.39	5.87	5.77	3.15	3.02	4.79	4.36
1992-I	5.46	5.95	5.85	3.12	2.87	4.80	4.37
1992-II	5.5	6.25	6.10	3.13	2.75	4.84	4.26
1992-III	5.5	7	6.70	3.07	2.46	4.76	3.81
1993-I	5.73	8.41	7.87	3.16	3.17	4.88	3.35

Source: International Monetary Fund and Staff Estimates.

Chairman CRANE. Thank you, Ms. Kaptur.

Let me repeat again for all of the witnesses that any extended remarks will be made a part of the permanent record.

Chris Cox.

**STATEMENT OF HON. CHRISTOPHER COX, A REPRESENTATIVE
IN CONGRESS FROM THE STATE OF CALIFORNIA**

Mr. COX. Thank you, Mr. Chairman. I have submitted a lengthy statement for the record and so will be brief in this oral presentation.

I do not need to go over any of the litany of offenses against humanity and trade that the Communist government in Beijing has committed in recent years. We need not go over anything other than the highlights to remind ourselves that they have attacked the Philippines by seizing the aptly named "Mischief Reef" in the Spratly Islands, that they conducted a 2-year high-stakes intimidation campaign against the democracy in Taiwan during the Taiwan missile crisis. They fired nuclear-capable missiles in international waters with the effect of shutting down the world's shipping at both ends of Taiwan.

China has more than doubled its military spending, since the collapse of the Soviet Union. It has been acquiring fighter aircraft, helicopters, surface-to-air missiles, and even SS-18 ICBMs from Russia. They are giving ring magnets for uranium enrichment to Pakistan so that they can make nuclear weapons. They are passing on chemical weapons to Iran.

They are, in my home State of California, through the commercial-disguised entities operated by the People's Liberation Army and run for the benefit of the ruling families in Beijing, selling completely illegal, thousands of them, AK-47s to street gangs in San Francisco.

I cannot do nearly the job of hitting even the highlights on the internal repression that you have heard from my colleagues, whether it is the continued occupation of Tibet, the torture of the clergy, the continued escalating crackdown on pro-democracy leaders. There is even an article in today's New York Times about the continued detention, after 7 years of his full sentence, one of the reform leaders of the Communist party.

Suffice to say that MFN cannot bear the weight of all of these policy disagreements that we have, to put it euphemistically, with the People's Republic of China. Yet, while Communist China has become the single most disturbing political and military threat in the world today, the debate over MFN as we have conducted it within and without the administration and Congress has burdened MFN with practically the entire weight of the bilateral U.S.-PRC relationship.

What I want to suggest is that MFN is inappropriate for that purpose, that it simply cannot bear that weight, that if we are counting votes and likely results, we have to recognize that MFN is going to continue. So what are we going to do about it? We need to ask ourselves the same question that Chris Smith just put to the business community. If that is the case, then what, everything is OK, or are we going to do something else?

I would like to suggest something else that is not only completely consistent with but deliberately in furtherance of our pro-free-trade views in America and in the WTO. The purpose of the WTO is to enable members to conduct trade on free market principles by limiting government intervention in the form of state subsidies, excessive tariffs, and other nontariff barriers. The WTO is based on the assumption that the import and the export of goods and services are conducted by independent enterprises, not by fronts for the People's Liberation Army, responding to profit incentives and market forces.

For this reason, the WTO requires for membership that Communist and socialist countries, what we euphemistically call nonmarket economies, reform themselves before they can be admitted to the WTO. A market economy that is decentralized and free is considered a prerequisite to fair trade among WTO members. Hong Kong is a WTO member. It will remain a WTO member even after it becomes a part of China on July 1, 1997.

Taiwan has applied for membership in the WTO and its application is under review in accordance with Article 33 of the latest GATT Agreement. Taiwan has had a free market economy for more than 3 decades. It is the 14th largest trading economy in the world. Its GNP is the 20th largest in the world. It is the world's seventh largest foreign investor. It is America's seventh largest trading partner, and, in fact, it is America's largest export trading partner that is not already a member of the WTO. Taiwan's purchases of U.S. exports are 50 percent greater than the PRC's.

We ought to be supporting Taiwan's admission to the WTO because Taiwan is the example of what Chinese civilization is capable of. Taiwan is the example of democracy, reform of human rights abuses, reduction in tariff barriers. All of the things that we know that China can become, Taiwan is doing, and yet what is the PRC doing? They are militarily threatening Taiwan, trying to intimidate their first free and fair election of a Chinese head of government in 4,000 years of recorded Chinese history.

It costs us nothing to support free trade with our friend and our trading partner, Taiwan. The message will not be lost on the PRC. So I have introduced legislation, H.R. 3569, which I am asking this Subcommittee to report favorably in time for our floor debate and which I know our Rules Committee is likely to make in order so that members who support MFN for Communist China without conditions, who support free trade and oppose punitive tariffs, central planning, and huge government subsidies, who are concerned about Communist China's militarization, the doubling of its military spending since the collapse of the Soviet Union, will have some other way to address these concerns, a way that is not injurious to the United States, that is not injurious to Boeing, that is not shooting ourselves in the foot, but that nonetheless makes the point in a very powerful way.

By moving the debate off of MFN and in this direction, I think we can open up new vistas and new opportunities to influence against communism in China and in favor of freedom, and I thank the Chairman.

[The prepared statement follows:]

Testimony of Christopher Cox

**on MFN Trading Status for the
People's Republic of China**

**Before the
Subcommittee on Trade
of the
Committee on Ways and Means**

on

June 11, 1996

I want to thank Chairman Crane and the other members of the subcommittee for giving me the opportunity to discuss the vexing issue of Communist China's trading status. I commend you for your timely and thoughtful attention to this vital issue. Unfortunately, due in large part to the failure to address a number of problems regarding Communist China's participation in the international community, the annual MFN question has been burdened with practically the entire weight of the U.S./China bilateral relationship.

Before addressing what I believe the United States must do, let me address the broad array of controversies in the Sino-American relationship. I must say that I am not sanguine about the chances for political liberalization in Communist China, and consider that nation the single most troubling political and military--as well as economic--power in the world at this moment. While not on the order of the Soviet Union in the Cold War, we must make no mistake, that as it is constituted today, the Communist Chinese regime is an enemy of freedom both beyond its borders and within them.

External Aggression and Proliferation

Beyond its borders, Communist China has engaged in both military aggression and arms proliferation. In February of last year, Communist China seized an outpost claimed by the Philippines on the aptly named "Mischief Reef" in the Spratly Islands. Then the PRC engaged in two campaigns of high stakes intimidation against Taiwan on the eve of Taiwan's first direct presidential election. It tested nuclear-capable missiles in July 1995 and March 1996, in the latter case establishing an effective blockade of the Keelung and Kaohsiung ports at the two ends of the island.

Communist China's aggressive posture should also be judged in terms of potential as well as overt aggression. We should be wary of the officially acknowledged 141 percent increase in defense spending in the PRC since 1989. And the pattern of acquisition of Su 27 fighter aircraft, Mil Mi 17 helicopters, S-300 surface-to-air missiles, and SS-18 ICBMs from Moscow is disturbing indeed in terms of its offensive force projection implications.

In addition to building up its own offensive capability, there are all too many cases of Communist China giving other nations technologies upon which nuclear and chemical weapons rely, and ballistic missiles to deliver those weapons. The PRC gave ring magnets used in uranium enrichment to Pakistan and ingredients for chemical weapons to Iran. It sold M-11 missiles to Pakistan, as well as cruise missiles and ballistic missile components to Iran.

And recently Communist China has engaged in a form of arms proliferation which would have a dramatic, immediate effect on life on American streets today. A sting operation caught two businesses controlled by the People's Liberation Army trying to

smuggle 2000 AK-47s into San Francisco.

Internal Repression

As a threat to freedom within its own borders, the PRC's record is just as striking. The Communist regime continues the decades-old occupation of Tibet. A PRC delegate to the U.N. in Geneva told the U.N. Committee on the Rights of the Child two weeks ago that the Communist authorities had detained the second most important Buddhist spiritual leader in Tibet, the Panchen Lama--Choekyi Nyima. Beijing replaced the child with its own puppet.

Religious repression by the PRC is not limited to Tibet. The Puebla Institute has documented over 170 cases of Christian clergy arrested, tortured, and put in "reform through labor camps."

And, of course, the PRC continues to harass and arrest without due process individual dissidents. The summary sentencing of Wei Jingsheng last December is the most prominent case. The seventh anniversary of the Tiananmen massacre a week ago demonstrated once again the PRC's propensity for detaining figures associated with democracy in order to keep a lid on freedom of expression and association.

Despite the premise that economic development will inevitably lead to political liberalization in the PRC, evidence clearly indicates where the PRC regime's priorities lie. Given a choice between *the free flow of real-time information* in business related journalism and on-line services, and *censorship* as a tool of Leninist political control, the Chinese Communist government has repeatedly opted for the latter in the last six months.

Trade Relations

Having said this about the Communist government's priorities, let me address trade *qua* trade. The burgeoning trade deficit with the PRC--\$33.8 billion this past year--is the product of the huge volume of PRC exports to the U.S., and the PRC's tenacity in erecting barriers to American (as well as other nations') access to its market. The Communist government of the People's Republic of China maintains an intricate system of restrictive tariff and nontariff administrative controls to implement its centrally-planned industrial and trade policies, with tariffs on foreign goods, such as automobiles, as high as 150 percent. This pattern continues despite the PRC's commitments in the Memorandum of Understanding on market access which it signed with the United States on October 10, 1992, and reaffirmed in March of 1995.

And the PRC has thus far flouted its February 1995 agreement on intellectual property rights--closing down but four laser disk and video piracy operations last weekend and capturing 40,000 illegal CDS, when the total production of the illegal CDS is in the tens of millions each month. Intellectual property is a classic example of the PRC's refusal to implement the rule of law. If the PRC fails to implement, by the Administration's June 17th deadline, last year's landmark intellectual property agreement with the U.S., the U.S. must follow through on the \$2 billion in targeted punitive sanctions it has threatened to levy. Our credibility is at stake. And that credibility has been severely stained by the Clinton Administration in Asia--from the June 1995 reversal on luxury auto sanctions on Japan to the August 12, 1995 "Framework Agreement" rewarding the North Korean nuclear program.

Observers often raise the size of the PRC's economy as a consideration in the decision whether to renew MFN trading status. I just want to stress that because the PRC is so huge in terms of population, resources, and economic production, and because its economy is growing so rapidly, its behavior regarding norms of free trade and other canons of modern international economic cooperation has portentous implications. If the PRC refuses to live by the standards of trade and business which the advanced industrial countries and more and more developing countries live by, its sheer size will have a tremendously disruptive impact on the global economy. Given this capacity to destabilize the world trading system, we need to do everything in our power to get the

PRC to abide by the norms of the rule of law and free trade.

Freeing Ourselves from the MFN Light Switch: A New Approach

I am convinced that the way our policy debate orbits around MFN as an "on" or "off" binary decision is detrimental to U.S. policy making with regard to the PRC. As a light switch which is either "on" or "off," MFN is too imprecise and unsuitable as a vehicle for communicating with the PRC's leadership.

That is why I propose a new approach. Instead of the "on" or "off" choice, I have introduced legislation with Mr. Gilman, Mr. Solomon, Mr. Torricelli, Mr. Lantos, and a number of others to try to use MFN to achieve a worthy aim, the meaning of which will not be lost on the PRC. H.R. 3569 conditions the PRC's continued enjoyment of MFN trading status after March 1, 1997 upon the entry of Taiwan into the World Trade Organization.

In my view, Members of the Ways and Means Committee and of Congress at large should see this initiative as a win-win proposition for the promotion of free trade. It would not stand in the way of the PRC being granted most-favored-nation status, but it would help deliver WTO membership to Taiwan, which it manifestly deserves--especially in comparison to the systematically protectionist PRC.

The contingent MFN renewal for the PRC should convince our Administration, and, hopefully, the PRC, to abandon the policy of keeping Taiwan out of the WTO until the PRC gains accession. It does not involve the contentious issue of sovereignty, since Taiwan has applied for WTO membership as a separate customs territory. And Taiwan's KMT government will be convinced to "come across" on the outstanding issues in its negotiations with current WTO members, which it has held out on so as not to hurt political constituencies in the government tobacco and alcohol monopolies.

The bill is indeed designed to get the PRC's attention--but not by inflaming the one versus two China policy *per se*--because Taiwan would enter the WTO as an economic entity rather than as nation-state. It is designed to do justice and call attention to Taiwan's remarkable success. As you, Mr. Chairman, and I observed in person in April, Taiwan has acted in good faith upon American encouragement and successfully built a booming market economy and a democracy, holding the first democratic presidential election in nearly 5,000 years of recorded Chinese history on March 23. Taiwan is the model we should encourage the PRC to follow. Perhaps rewarding Taiwan will send a clearer message to Beijing than the blanket revocation of MFN for Communist China.

Thank you very much for giving me the opportunity to testify before the subcommittee as it examines the President's request for a waiver under the Jackson-Vanik amendment.

Chairman CRANE. Thank you, Mr. Cox.
Mr. Rohrabacher.

STATEMENT OF HON. DANA ROHRABACHER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF CALIFORNIA

Mr. ROHRABACHER. Mr. Chairman, thank you for allowing me to testify today.

I am a Member of the Subcommittee that deals with Asia and the Pacific in the International Relations Committee, so I follow events in Asia very closely. I will soon be offering the resolution of disapproval for most-favored-nation status for China with a large number of original cosponsors from both parties.

In May 1994, President Clinton told us that an improving economy in China would be accompanied by an improvement in Beijing's respect for human rights. Instead, China's growing economy has only served to underwrite the PRC's enormous military expansion and enrich the Communist nomenclature.

President Clinton was wrong to delink China trade policy from human rights, just as George Bush was wrong in not cutting off most-favored-nation status after the Tiananmen Square massacre. If we had stood up for our principles then, we would likely be re-extending most-favored-nation status to a freer and less threatening China today.

Under the current policies of granting most-favored-nation status, China's human rights record has consistently worsened and its military grown more aggressive. I remind the Members of this Subcommittee that we are losing over \$30 billion in our bilateral trading relationship with Beijing in spite of almost \$5 billion in loans to China sponsored by the World Bank and the Export-Import Bank. We are financing an attack on the well-being of our own people.

We are told over and over again that China's market is so big and full of such incredible potential that we must close our eyes to the evil side of Communist China.

The question I have for Members of this Subcommittee is, where do you draw the line, which we have heard several times today? Genocide, is that too much to ignore? Or how about Tibet? If they just incinerate all the people of Tibet, would that be on the list of things that, well, we cannot draw the line here because otherwise they will get worse if we cut off trade with them? How about child and slave labor, is that too much? China has 100,000 labor camps and 6 to 8 million slaves working for the State. That is how they make a big profit in dealing with the United States, by the way. That is how their labor costs are kept down forever.

Where do the arguments used last year to justify most-favored-nation status for China differ from the ones that we are hearing today? My colleague and friend, Mr. Kolbe, noted that the arguments are the same this year as they were last year. Yes, that is true. Only the names of the victims have changed.

Do the things in China matter at all in terms of what we are doing here? Since last year, China has launched missiles at our friends in Taiwan, stirred up a conflict over the Spratly Islands, sold nuclear technology and cruise missiles to Iran, left thousands of infants to rot in state-owned orphanages, and blatantly broken

agreements that they signed to protect our intellectual property rights. I could not believe that we have representatives of this administration lauding those agreements. That is just so much scribbling on a piece of paper.

Unfortunately, I could use all my time listing these misdeeds of the Chinese, and I cannot do that. We know what happened to the Panchen Lama and Harry Wu and Wei Jingshen. We know about the threat to attack Los Angeles with the nuclear weapons and the seizure of 2,000 fully automatic machine guns by U.S. Customs officials that were being smuggled into California by the People's Liberation Army-owned firms.

The fact is, the policy of granting most-favored-nation status for China has not worked. Politically, it is not making them any better democratically, and it is not forcing them to open their markets to American goods. Let us recognize also that this is an economic failure as well as a political failure. Almost everything we send into China except airplanes are raw material. Those are the things that we make profit on. We are sending raw materials that they turn around and put their slave labor into manufacturing and send it back to us and make a profit. In the process, of course, they make a profit and put all of our working people out of work.

This policy is no good for the United States. It is immoral. We need to take seriously the call to examine this policy rather than just blase—some people are just blase about this. Well, so what if the Christians are being murdered? So what? The basic argument is, more people will be murdered unless we keep up the same policy. This is very similar to what Dick Armey tells us. Dick Armey has a saying about it. The definition of insanity is doing more of the same and expecting to get different results.

This policy of extending MFN to China after they move aggressively in the wrong direction, they arm themselves to the teeth, they violate human rights even more than ever before, this is an insane policy for the United States to permit the American consumers to end up footing the bill for arming China to the teeth. They are using the \$30 billion that they get off this trade surplus—because of the unfair trading relationship we have established with them, they get \$30 billion—they are using it to arm themselves and future generations of Americans will pay dearly if we do not change this policy today.

Thank you very much. I appreciate the chance to testify.

Chairman CRANE. Thank you, Mr. Rohrabacher.

Mr. Scarborough.

STATEMENT OF HON. JOE SCARBOROUGH, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF FLORIDA

Mr. SCARBOROUGH. Thank you, Mr. Chairman and Members of the Subcommittee. I would just like to thank you for allowing me to testify on a very important matter today.

All of us up here recognize how important China is going to be in the 21st century. I think most of us recognize that for the first time in about 500 years, Asia is going to take on a role in this world that may approach an equally important role as that previously held by Western nations. So, we are not naive about China's role in the world.

But, I think most of us are also disturbed, though—and you used a very good word, Mr. Rohrabacher, *blase*—by the *blase* attitude and approach that many business leaders have, that many politicians in Washington, DC, have, and many diplomats across the globe have toward China's absolutely horrendous record, not only on human rights but in other areas, as well. We are being told constantly to ignore the theft and intellectual property piracy that is occurring right now in China, to ignore nuclear proliferation. We are being told to ignore human rights abuses.

Somebody mentioned the New York Times article today. Bao Tong, who, of course, was a Tiananmen Square demonstrator, was quoted in a note that was smuggled out of China. "In this cage where I am, there is no law, there is no lawyer, there is no doctor, there is no telephone, and there is no time limit."

And yet, we turn our eyes away from that. We ignore the 60 million deaths in this regime since 1949. Ten times the amount of people that were slaughtered in the Holocaust were killed in China by their own government, and yet we are told that we can continue to deal with these people rationally like we would deal with any other Western nation that has our value system. We cannot.

We are told to continually ignore the persecution of men and women of faith, and we are continually told to ignore all of this and much more for the fevered pursuit of the almighty dollar, and the attitude is nothing more than market share over human rights and money over national security, and we are talking about our National security here, not only people's security in China.

The thing, that angers me the most is I hear people saying, let us not use MFN. There must be some other approach that we can take. What other device is there for Congress? This is the only game in town. If we want to speak out against nuclear proliferation and the continued human rights abuses and the continued slaughter that has occurred in China over the years, this is the only game in town.

The symbolic value of MFN is indisputable. Unlike MFN status of other nations, China has been placed in a special and highly visible category. For the Chinese, it has become a measure of their standing in the world and we in Congress continue to lose sight of this. We are the world's only remaining superpower, and to a degree that we tend to underestimate, our relationship with a given regime tends to confer a degree of legitimacy to that regime.

While I do not believe that withdrawal of MFN status for Beijing will end its legitimacy, for the moment, that legitimacy is rooted in the barrel of a gun. I do believe that conferring MFN status on China will tend to undermine our efforts to stigmatize that regime's deplorable behavior in the international arena.

Beyond that, MFN status also underscores how serious we are, and I think more importantly, how seriously we are going to be viewed in terms of our relationship with China. To date, we have not been a good account of ourselves and it saddens me to say that many of my fellow Republicans must bear at least a heavy share of the blame for this. Unfortunately, many of us Republicans consider disruption of trade with China to be interference with commerce and, therefore, something on the order of violation of the free exercise of religion.

I remember being absolutely shocked, you talk about the Chamber of Commerce in China, our Chamber of Commerce in America docked me for voting against MFN last year. They said I was an enemy of business, basically, because I cared about human rights. We have got to get past this mindset. If we do not, we are going to be paying for it year after year, because if you think it is difficult to say no to a China today that represents 14 percent of our exports, you wait until it represents 16, 18, or 20 percent of our exports.

Make no mistake about it. China will be either the number one or two economy in the world in the next 20 years. When are we going to say no to China? If we are too greedy to say no to China today, we will be too greedy to say no to China in the future.

Mr. Chairman, I thank you for your time. Of course, I have submitted a more thoughtful and concise statement for the record which people can read if they wish. Thank you.

[The prepared statement follows:]

STATEMENT OF HON. JOE SCARBOROUGH

Mr. Chairman, Members of the Subcommittee, I want to thank you for the opportunity to come before you today to discuss a matter in which I have taken a very great interest. The People's Republic of China, in my view, will be the principle foreign and military policy concern of the United States in the Pacific Region, specifically, and perhaps in the world, generally, well into the next century. Given my position on the National Security Committee, not to mention a genuine intellectual interest regarding China, I consider it a great privilege, as well as a matter of some urgency, to speak to you about China, and about the critical part that the MFN debate will play in the United States' developing relationship with the Beijing regime.

That role is a matter of great symbolic importance. Note that I said of symbolic importance. The adjective would tend to lead one to believe that the matter is therefore not of practical importance. In fact, nothing could be farther from the truth, but MFN's practical import is, in some measure, unclear, and I think is of perhaps secondary consideration for reasons which I will discuss in due course.

The symbolic value is, however, I think, indisputable. Unlike the MFN status of other Nations, both those to whom we routinely extend it, and those to whom we routinely deny it, China has been placed in a special and highly visible category. For the Chinese, it has to some extent become a measure of their standing in the world. We in the Congress, I think, tend to lose sight of this. We are the world's remaining superpower, and to a degree that I believe we tend to underestimate, our relationship with a given regime tends to confer a degree of legitimacy on that regime; almost an imprimatur that becomes a credential of acceptability.

Now, while I do not for a minute believe that our withdrawal of MFN status for Beijing will lend its legitimacy—for the moment that legitimacy is rooted in the barrel of a gun—I do believe that conferring MFN status on China will tend to undermine our efforts to stigmatize that regime's behavior in the international arena. Thus, if we stay with business as usual, I fear that we may, at some future time, find that it is a very risky business in which we are engaged.

Beyond that, though, MFN status also underscores how serious we are—and how seriously we are viewed—in terms of our relationship with China. I am afraid that, so far, we have not given a good account of ourselves, and it saddens me to say that even some of my fellow Republicans must bare at least a share of the blame for this. Unfortunately, a number of my colleagues consider disruption of trade with China to be interference with commerce and therefore, something on the order of a violation of the free exercise of religion. As a result, the United States talks loudly and brandishes a very thin reed. We rattle sabers about how China's behavior is unacceptable, and then when it comes to the vote, we scamper away saying under our breath, "China better watch out the next time." Needless to say, such behavior undermines our credibility not only with China, but with those allies whom we may one day have to lead should China become more hostile.

This last point is at least as important as our relationship to China itself. Keep in mind, once the British and Portuguese relinquish Hong Kong and Macao respectively, Europe's direct and immediate interest in China will become almost a purely economic one, with almost no security overtones to it. When our allies, particularly

Britain and France, who are the only two of our allies whose interests remain global in nature, see us vote market share while we speak of the security of the Pacific rim, they will not hesitate to draw the obvious conclusion. Similarly, when Japan, South Korea, Taiwan, Australia, and New Zealand, among others, see us vote profits over security, particularly at a time when we appear to be looking ever inward, and when the administration speaks of foreign policy as if it was nothing but an extension of trade policy, we can be sure that they will begin to doubt our resolve and will act accordingly. Thus, if the next time that there is a crisis our allies refuse to follow our lead in responding to it, we will have few grounds for asking why.

However, I digress. The issue at hand is China and MFN. The symbolic case is clear. Our seriousness, and the degree to which we will be taken seriously by the Chinese and others, has become wrapped up in the vote of MFN and we cannot escape that fact. If we vote our pocketbooks today, we may well find that we will get more than we bargained for tomorrow.

Let there be no mistaking me here. I do recognize that it will be hard, and that we will pay a price for eliminating MFN. China currently represents 14 percent of our trade. Although we currently run a trade deficit with China, many American businesses, including a few in my own district, do ample and profitable trade with the Chinese. This is a fact, but it is a fact that admits of no conclusion beyond acquiescence in China's aggressive policies. For we are told that cutting off trade with China will hurt Americans more than it will hurt Beijing. Well, if that is true this year, when China represents a 14 percent share of our trade, how much more true will it be next year, when China represents 16 percent of our trade? Or the year after, when China represents 18 percent? At what point will we be willing to accept the cost of restraining China?

Sadly, even the best decisions do not have entirely positive outcomes, and eliminating MFN with China may adversely effect some American businesses. However, the ability to inflict necessary pain in the name of long term interests and get away with it is called leadership, and as regards China we are long overdue for some leadership.

Now, I would also add that I am dubious about just how much pain eliminating MFN will cause American business over the long run. Since the days of the open door policy and dollar diplomacy, the United States has assumed that China's billions would be a lucrative and ever expanding market. In fact, in December of 1941, we went to war with Japan in part over China, only to find that in 1996, Japan is a bigger market for us than is China. The last 100 years of Sino-American relations, as the late Barbara Tuchman pointed out in her book, "Stilwell and the American experience in China", do not support the notion that China is a land flowing with milk, honey, and profits. So, I would say that all those predictions of the billions that China trade will represent to the United States must be taken with a grain of salt.

There is one other point to be made regarding this trade matter. Business seems to be of two minds about this. On the one hand it argues that we will not hurt China, but only ourselves, if we cut off MFN, but on the other hand it argues that our trade influences China to behave better. This is a contradiction, to say no more, but it is rooted in a peculiarly American notion of foreign policy. It is, in fact, what I call the Coca-Cola theory of foreign policy. That is, it assumes that if only all the material goods of a consumer society, like Coca-Cola, were flowing in the streets of Beijing, or Moscow, or wherever, that Beijing, Moscow or wherever, would moderate their behavior. It assumes that American policy toward any regime must be therapeutic rather than rooted in the grim realities of international power relationships.

This has proven mistaken time and again throughout out history and yet we continue to believe it. In the case of China, the assumption is wrong on two counts: First, it assumes that the principle concern of the Chinese government is the welfare of its people. To the extent that a booming economy insures that stability of the regime, a regime whose ideological underpinnings no longer exist, there is probably a grain of truth to that. However, at the end of the day, the tanks that rolled through Tienanmen Square, prove that the Chinese leadership is not too concerned about whether or not their people get to watch M-TV and drink Perrier.

The second point is that much of China's current behavior is rooted in the power struggle taking place in Beijing for the succession to Deng Xiao Ping. That power struggle will be resolved, in no small measure, by the Chinese generals and admirals, and will therefore be decided not by the benign competition of international trade, but by the shrill cries of nationalism. This in a culture rooted in a thousand years of thinking of itself as the Middle Kingdom—the center around which all things revolve. Therefore given this, I submit to the Subcommittee that the symbolic value of MFN will be of greater importance than its practical effect.

Indeed, at the very least, the effect of eliminating MFN, in its practical implications, is at best unclear. I well understand that many human rights groups in China wish MFN to be preserved, but I must confess that I subscribe, to a great degree, to John Quincy Adams belief that "Americans are friends of liberty everywhere, but custodians only of their own." The fact is, we cannot hope, in any meaningful sense, to influence China's internal behavior, but we can, by the consistent application of a forceful diplomacy linked to a strong military, influence Chinese policies that threaten or oppose the policies and security of the United States and its allies in the Pacific rim.

In the end, that must be our guide. We face in China today, and unstable regime whose ideology is dead but that does not know enough to fall down. We face in China, today, an emerging world power, by no means the equal of ourselves in any sphere, but that has the potential to challenge the peace and stability of the world, and certainly of that region of the world that is increasingly the most important. China must not be lead to believe that her behavior in this region is not without consequences, both symbolic and practical.

Indeed, in all of this, the only thing we know with any certainty is our own resources and our own resolve. The MFN debate is a test of those resources and that resolve. I say to the Members of this Subcommittee, for the sake of the future, we must not be found wanting.

Thank you Mr. Chairman, I would be more willing to answer any questions the panel may have.

Chairman CRANE. Mr. Hancock.

Mr. HANCOCK. I will make this real brief because we have this vote coming up and I probably will not get an answer. I would just like for you to consider a couple of things.

I read something the other day that in Washington, when they talk about something being complicated, that means that you are going to get a lot of rhetoric, and what have you. Usually there is a way that you could simplify things.

I would like for you just to consider this and see if we could think about this. Tell me if I am wrong. We have three alternatives. One is MFN without any restrictions. We agree with that. Another one is MFN with some restrictions in the human rights area, in other words, putting some pressure on. The other one is just to deny MFN to China and say, look, no MFN until you get your case straightened out. I do not think anybody wants to get into a trade war or anything like that. There is a lot of pressure because of the flow of American investment capital going in, which gets back to your business question.

I just want to pose this question from those three standpoints. Basically, am I right on that, that those are our three alternatives?

Mr. Cox. If I might, the purpose of my testimony was to present an additional option, and that is that we can vindicate our interests not only in human rights and international security but also in free trade and commerce by meeting head on the PRC's objection to Taiwan's admission to the WTO. Taiwan is comprised of Chinese people just the same way that the Communist government in Beijing and its billion people are.

The PRC has taken the view that Taiwan cannot be admitted to the WTO, even though admission to the WTO does not require that one be a sovereign nation. Hong Kong, as I mentioned, is already a member and will remain one after July 1, 1997. So, too, Taiwan is applying for admission as a special customs region, not as a sovereign entity.

There is no reason in law or in logic that Taiwan ought not to be a member of the WTO. By acceding to the PRC's extremely unreasonable position that Taiwan cannot come in until it comes in,

since it is not qualified and I do not think anybody on this Subcommittee believes that the PRC ought to be in the WTO, we are capitulating not only on human rights, not only on international security, but on free trade, as well.

I would just add finally that the PRC has made mention of the fact that they care just as much about their claims to militarily have the right to invade Taiwan as they do about MFN, and so I do not think the message will be lost on them.

Ms. KAPTUR. Mr. Hancock, I just wanted to add in the three options that you have outlined the middle one, which is conditional. The purpose of my testimony was to indicate that in addition to supporting the other gentleman up here on the human rights issue, on the economic front, we are not getting a good deal for the United States. You really need to look at the tariff rate and—

Mr. HANCOCK. This would tie in with Congressman Cox's WTO possibility, the economic side of it.

Ms. KAPTUR. It would, and also on the exchange rate.

Mr. HANCOCK. One final thing that I would just like to add—

Mr. SCARBOROUGH. Mr. Hancock, if I could just respond very briefly.

Mr. HANCOCK. One final thing that I would like to ask, and we are going to have to go vote—go ahead.

Mr. SCARBOROUGH. I was just going to say, one problem with a conditional MFN is it has to be approved by an administration that has had a horrendous record of kow-towing toward China, so unfortunately, that is not a practical option.

Mr. HANCOCK. That is probably the biggest problem we have, is getting something approved by the administration.

One final question, and—

Mr. SMITH. Senator, if I could respond briefly to that, because the condition, and everyone has to realize this, is postponement. The day of judgment comes the next year when the record is assessed as to whether or not it got worse, and that is exactly what the Clinton administration did, perhaps with some disingenuousness to its attitude.

The administration averted Congress taking the action that it probably would have taken by issuing an executive order and then sent out mixed signals. I led a human rights mission midway through the review period and was told by every Chinese leader with whom I met: "We are getting MFN. You are going to delink it." I said, "No, no, the administration means it." They were proven right in that regard.

There is a fourth option and that would be limiting or targeting the sanctions on a certain group of industries, for instance, those that are owned and operated by the People's Liberation Army or something along those lines.

Chairman CRANE. Mr. Hancock, if you will permit me, we are down to 5 minutes on this vote.

Mr. HANCOCK. Let me just make this statement and then I am ready to go.

Chairman CRANE. All right.

Mr. HANCOCK. If we had had MFN with Russia over the past 25 or 30 years, go back into history, where would we be now? Would

the cold war be over? Would the Berlin Wall have come down? Let us just think about it.

Mr. ROHRABACHER. I would like to answer that question, whereas I was in the White House during that time period. No one ever suggested—

Chairman CRANE. Mr. Rohrabacher, could you consider answering it on the walk over there to the floor?

Mr. ROHRABACHER. No one suggested giving this to Russia. Had we given this to Russia and treated them like any other country, there would not be a democratic movement in charge of Russia today.

Chairman CRANE. Thank you all for your testimony. We appreciate that.

The Subcommittee stands in recess.

[Recess.]

Chairman CRANE. I would now like to yield to Mr. Younts, then Mr. Cohen, Mr. Snyder, and Mr. Kapp.

You may proceed with your testimony, Mr. Younts, and as I have told other panels here, try to keep your presentations to 5 minutes, and any further remarks you have will be made a part of the permanent record.

STATEMENT OF RICHARD W. YOUNTS, EXECUTIVE VICE PRESIDENT AND CORPORATE EXECUTIVE DIRECTOR, INTERNATIONAL-ASIA AND AMERICAS, MOTOROLA, INC.

Mr. YOUNTS. Thank you. Good afternoon, Mr. Chairman and members of the Subcommittee. My name is Rick Younts, and I am executive vice president and corporate executive director, international, for Asia and the Americas. I appreciate the chance to offer Motorola's perspective on the importance of unconditional renewal of China's MFN status.

International trade creates jobs and sustains economic growth for Americans. Between 1988 and 1995, the percent of Motorola sales outside the United States nearly doubled, from 36 percent to 63 percent. During the same timeframe, Motorola created 40,000 new jobs; 20,000 of those jobs were in the United States.

Motorola has a keen interest in ensuring that there are sustained, positive relations between the United States and China. My responsibilities at Motorola have allowed me to spend a great deal of time in China over the last 5 years. During that time, I have seen tremendous positive changes in that country.

The Chinese have been very open to our products, our processes, and our management styles. With the help of Motorola University, we have been able to establish a productive and effective work force of over 6,000 people who have developed the same values as Motorolans around the world.

Motorola's exports to China have grown significantly in recent years, reaching about \$1.2 billion in 1995. These exports support thousands of high-wage American jobs at Motorola and our supplier companies around the country. A fact sheet detailing Motorola's activities in China are included with my written statement.

Motorola strongly supports renewal of China's most-favored-nation status without conditions. MFN is not a preferential treatment. It is the cornerstone of normal bilateral trading relations.

We are heartened by indications of a strong bipartisan support for unconditional renewal of China's MFN status, but as we have heard here today, there are some who want to use the MFN debate to express their concerns about many issues, including human rights, proliferation, intellectual property, market access barriers, and so on. These concerns are legitimate and important. They deserve to be addressed seriously and effectively. But we believe that efforts to use China's MFN renewal to address these concerns would be counterproductive.

Withdrawal or conditioning of China's MFN status would invite Chinese retaliation, which would jeopardize Motorola's exports to China and our business in China. This would give our foreign competitors an unfair advantage and would threaten U.S. companies' ability to compete throughout the Asia-Pacific region. Moreover, there is no good reason to believe that this sacrifice would produce the results which its proponents seek. Conditioning or withdrawing China's MFN status would increase China's isolation and would eliminate the opportunity to influence China's policies for the better.

When Motorola looks at China, we see not only a great commercial market for our technology but also a social obligation that we are taking very seriously. Motorola exposes its Chinese employees to market-driven business and management practices, and to our core principles of respect for the individual and uncompromising integrity in everything we do. We provide tens of thousands of hours of training to our employees, suppliers and government officials at Motorola University in Beijing and in Tianjin.

Motorola is one of the largest donors to the Hope Project, which builds elementary schools in rural China. Motorola now has 17 such schools in depressed areas. Last fall, Motorola became the first foreign company to cosponsor an environmental protection symposium that brought together Chinese policymakers, regulators, scholars and practitioners, and we are now exploring other environmental protection and awareness projects with fellow companies.

Finally, Motorola is sponsoring an employee home ownership program which covers construction financing, mortgage financing to the employees, funds for community amenities, and a portion of the mortgage payment and liability. We think Motorola is making a difference.

Withdrawal or conditioning China's MFN status or adopting legislation that would restrict or disrupt United States-China ties likely would make it impossible for us to continue these activities.

More broadly, our ability to contribute to positive change in China demands that ties between the United States and China stabilize and deepen over time. Renewal of China's MFN status over time is the right short-term objective, but over the long term, the United States and China should take the steps necessary to stabilize and normalize their commercial ties.

Withdrawal or limitation of China's MFN status would set back this important bilateral relationship just at the moment when the

United States needs to come to grips with China's emerging great power status. The cost of such action would be paid by American exporters for decades to come, as the credibility of the United States as a trading partner would become an issue every time we sat down to make a sale.

But, the cost to our country extends well beyond the impact on American exporters. We believe that stable United States-China relations serve the long-term interests of both nations.

Mr. Chairman, thank you and the other Subcommittee members for your continued support and leadership in maintaining unconditional MFN status for China and in opposing legislation that would condition or restrict United States-China ties.

We welcome the opportunity to continue to work with you and the Subcommittee in the weeks ahead to achieve our common goals.

Thank you very much.

[The prepared statement and attachment follow:]

**Statement of Motorola Inc.
Before the
Subcommittee on Trade
House Ways and Means Committee
June 11, 1996
Washington, DC**

Good morning, Mr. Chairman and members of the Subcommittee. My name is Rick Younts, and I am Executive Vice President and Corporate Executive Director of International-Asia and Americas. It is a pleasure to appear before you today to share Motorola's views on the importance of maintaining stable commercial relations between the United States and China.

About Motorola

Motorola is the world's largest producer of cellular telephone, two-way radios and pagers. That accounts for about 60% of our total sales. We're also one of the largest semiconductor companies in the world, which accounts for another 30% of our sales. The remaining 10% is from related areas of electronics. Total Motorola sales have doubled in the past three years, to \$27 billion in 1995.

The Importance of International Trade to Motorola

International trade plays a pivotal role in creating and sustaining economic growth for American workers and companies. The importance of being able to trade freely and on fair terms across international borders will become increasingly important as we move toward the 21st century.

The expansion of trade is not a one way street -- increased trade flows of goods, services and investment provides benefits to United States as well as to our trading partners. A few Motorola statistics will illustrate the point. In 1988, 36% of Motorola's total revenues were derived from sales outside the United States. In 1995, that figure was 63% and growing. Over that period, our worldwide revenues grew from \$8.25 billion to \$27 billion. By the year 2000, we anticipate that fully 75% of our total revenues worldwide will result from sales outside the United States.

Also, between 1988 and 1995, our employee base grew from 102,000 to over 140,000. Of the roughly 40,000 new jobs created, half were created right here in this country. As we have created these new jobs in the US, the proportion of manufacturing jobs relative to the total has remained stable. And we've been able to eliminate such jobs as quality-assurance inspectors and expeditors as Motorola's quality and cycle time have improved, so both the "quality" of the manufacturing jobs and the total number of jobs in the US have gone up.

These statistics bear out the fact that access to international markets has allowed Motorola to grow and strengthen its competitive position and its contribution to the US economy through increased jobs and revenues.

Since 1988, countries containing four-fifths of the world population, or more than 4 billion people, have either moved or begun the transition from closed markets to become integral players in the global economy. This has created enormous opportunities for telecommunications, one of the most basic forms of infrastructure. Wireless systems enable developing economies to leapfrog old technologies and install modern networks very quickly.

Our most dramatic growth has been in Asia, where sales represented only about 5% of Motorola's total in 1985, and now account for more than 30%. Within Asia, the rapid expansion of the China market has helped to fuel this tremendous expansion.

US-China Relations

Motorola has a keen interest in ensuring that there are sustained positive relations between the United States and China. Motorola's US exports to China have grown significantly in recent years, reaching about \$1.2 billion in 1995. These exports support thousands of high-wage American jobs, at Motorola and at our supplier companies around the country. A fact sheet detailing Motorola's activities in China is included with this statement for your reference.

As you can imagine, Motorola strongly supports renewal of China's most-favored nation (MFN) status without conditions. MFN is not preferential treatment. It is the cornerstone of any normal bilateral trading relationship. The US extends MFN treatment to imports from virtually all of its trading partners.

We are especially grateful for your continued leadership in support of MFN extension, Mr. Chairman, as well as the support of other members of this Subcommittee. We are heartened by indications of bipartisan congressional support for MFN renewal. And on May 20, Motorola's Vice Chairman and CEO Gary Tooker had the honor of introducing President Clinton at the International General Meeting of the Pacific Basin Economic Council, where the President announced his intention to renew China's MFN status without conditions again this year.

We would like to believe that this strong showing of bipartisan support for China's MFN renewal without conditions would make it easy to accomplish. But there are many in the Congress who want to use the MFN debate to express their concerns about a range of issues, including human rights, proliferation, intellectual property rights, market access barriers and so on.

These issues are legitimate and important. They deserve to be addressed seriously and effectively. But we believe that efforts to use China's MFN renewal to address these concerns would be counterproductive. Such "messages" may address a certain domestic need, but they also contribute to Chinese perceptions that the United States is intent on pursuing an antagonistic policy of containment. Though this may be the furthest thing from the truth, these actions fuel such perceptions, which unfortunately contributes to an endless cycle of mutual misunderstanding.

Achieving and maintaining good US-China relations require a sustained long-term commitment by both nations. Corporations can and should play a supportive role. Motorola is trying to convey to Chinese policymakers the importance of recognizing that their actions do have an impact on public opinion worldwide, and that they shouldn't behave as though their actions in one area do not affect their interests in other areas. Likewise, American policymakers must understand fully the implications of their actions. If we treat China as an enemy, it will behave as an enemy. No US interests are served by backing into a confrontation with an emerging world power.

Withdrawal or conditioning of China's MFN status would invite retaliation, which would jeopardize Motorola's exports to and business in China. This would give our foreign competitors an unfair advantage in the rapidly expanding Chinese economy, and would threaten Motorola's ability to compete throughout the Asia-Pacific region. Moreover, there is no good reason to believe that this sacrifice would produce the results the US seeks on these other non-trade issues. On the contrary, conditioning or withdrawing China's MFN status would increase China's isolation and would eliminate the opportunity to influence China's policies for the better.

The annual debate over renewal of China's MFN status puts the US Government in the difficult position of measuring progress in artificially short increments. Taking a longer view can yield a different picture. Since Motorola first went to China in 1986, we have seen a rise in the standard of living and improvement in the human condition in China. China has a long way to go to solve some of its social problems, but it has come a long way in a relatively short time compared to where it started.

Motorola does not condone China's actions towards Taiwan earlier this year. Likewise, we support further improvements in China's human rights record. But Motorola believes that withdrawal or conditioning of China's MFN status, or the imposition of unilateral sanctions that hurt American workers or exporters without significantly affecting Chinese policies or actions, is not an effective response to these issues. For this reason, we were relieved that the United States was able to address its recent concerns about alleged Chinese violations of nonproliferation agreements and norms without resorting to unilateral sanctions.

Unilateral sanctions are never our first preference as a means to resolve an issue. Thus, in the case of the current intellectual property rights dispute between the US and China, we remain hopeful that negotiators in both countries will make every effort to resolve the outstanding issues before sanctions are actually imposed. At the same time, Motorola believes that faithful implementation of negotiated commitments is extremely important. If these commitments are not being met satisfactorily, then the issues must be addressed.

When we look at China, Motorola not only sees a great commercial market for our technologies but a social obligation that we are taking very seriously. We believe Motorola's presence in China contributes to improvements in Chinese society in several ways.

Just as we do in every country in which we operate, Motorola exposes its Chinese employees to market-driven business and management practices, and to our core principles of respect for the individual and uncompromising integrity in everything we do. We provide tens of thousands of hours of training to our own employees, suppliers and government officials at Motorola University in Beijing and Tianjin, and through on-the-job

training. Motorola is one of the largest donors to the Hope Project, which builds elementary schools in the poorest parts of rural China. Last fall, Motorola became the first foreign company in China to co-sponsor an environmental protection symposium that brought together Chinese policymakers, regulators, scholars and practitioners, and we are now exploring other environmental protection and awareness projects with fellow companies. Motorola is also sponsoring an Employee Home Ownership Program, which covers construction financing, mortgage financing to the employees, funds for community amenities and a portion of the mortgage payment liability.

Our ability to contribute to positive change in China with activities such as these demands that ties between the United States and China stabilize and deepen over time. Renewal of China's MFN status this year is the right short-term objective. But over the long term, the United States and China should strive together to take the steps necessary to stabilize and "normalize" their commercial ties. By "normalization" we mean promoting changes in US and Chinese policy that will allow the two countries to enjoy a commercial relationship regardless of where we stand on other issues.

Normalizing US-China commercial relations would include permanent MFN extension, China's accession to the World Trade Organization (WTO) on commercially acceptable terms, and additional improvements in bilateral trade ties through a step-by-step reciprocal process. Motorola's ability to compete in China on fair terms is essential, and we call on policymakers in both nations to do their part to help us accomplish these vital objectives.

Conclusion

Withdrawal of or limitations on China's MFN status would set back this important bilateral relationship just at the moment when the United States needs to be coming to grips with China's emerging great power status. The cost of such an action would be paid by American exporters for decades to come, as the credibility of the United States as a trading partner would become an issue every time we try to make a sale. Restricting China's MFN status is not *a* worst case for US exports, but *the* worst. But the costs to our country extend well beyond the impact on American exporters such as Motorola. We believe that stable US-China commercial relations are in our company's best interest, but more importantly, serve the long-term interests of both nations.

Mr. Chairman, your continued support and leadership in maintaining unconditional MFN status for China and in opposing any legislation that would condition or restrict US-China trade ties is vitally important for Motorola. We applaud you for conducting today's hearing, and welcome the opportunity to continue working with you and the other members of the subcommittee in the weeks ahead to achieve our shared objectives.

Thank you.

Motorola in China

Overview

Motorola is a leading supplier of advanced telecommunications and electronics equipment in China today. Products sold by Motorola in China include cellular phones, pagers, radio communications systems, and communications and semiconductor components.

The goal of Motorola in China is to serve as a model for cooperative development. Motorola is undertaking a wide variety of initiatives with both its employees and customers to achieve that goal. The company employs nearly 7,000 people in China today. That number is expected to grow to 14,000 by the year 2000.

Motorola's long-standing commitment to training and education are evident in China. All Motorola employees in China receive extensive training in human resource principles of participative management, empowerment, motivation, individual dignity and ethics.

A branch of Motorola University (MU) was established in Beijing in 1993 to train employees, customers, suppliers, and government officials in a range of management, technical and other areas. MU established a second branch in China, in Tianjin, at the end of 1995.

Customers in China include the Ministry of Posts and Telecommunications, provincial telecommunications authorities, municipal and other public safety authorities, financial institutions, educational institutions and private companies.

History and Evolution

Motorola opened a representative office in Beijing in 1986 and has experienced rapid growth since the early 1990s as an active participant in China's transition to a market economy. Motorola (China) Electronics, Ltd. (MCEL), a wholly-owned Motorola entity, was incorporated in March 1992. P.Y. Lai is president of MCEL.

In June 1992, Motorola broke ground on its first major manufacturing facility in the Tianjin Economic Development Authority (TEDA) area of Tianjin. The facility began operation in March 1993. Motorola's Tianjin factory produces pagers, cellular telephones, communications components and semiconductors, mostly for sale in China and other markets in Asia.

In March 1995, Motorola announced its first joint-venture arrangement in China with Leshan Radio Factory for the manufacture of discrete semiconductors. Since then, Motorola also has concluded joint venture arrangements with Nanjing Panda Electronics Group Corporation to produce home computers based on certain PowerPC™ microprocessors, and with Shanghai Radio Communications Equipment Manufacturing, Ltd. to produce pagers.

In September 1995, Motorola announced plans to build a large capacity integrated circuit wafer fabrication plant in the city of Tianjin. The plant will begin manufacture of eight-inch semiconductor wafers with sub-micron line widths by 1997. These products will serve customers in automotive, communications, personal computers, peripherals, and digital consumer markets.

Motorola began operation of its Asia Manufacturing Research Center (AMRC) in Beijing in December 1995. This is the company's first manufacturing research lab outside the United States. Earlier in 1995, AMRC announced a joint manufacturing research project with the Computer Integrated Manufacturing System-Engineering Research Center at "China's MIT," Qinghua University in Beijing.

In addition to production facilities in Tianjin, Motorola investment in China includes headquarters offices in Beijing; branch offices in Shanghai, Guangzhou, Tianjin, Harbin, Nanjing and Chengdu; a Motorola service shop and software center in Beijing, and Motorola University training centers in Beijing and Tianjin. Future plans call for opening sales and service offices in another 20 cities throughout China.

Operating and Financial Results

Motorola's 1995 combined sales to China and Hong Kong reached \$3.2 billion, or nearly twelve percent of the company's total worldwide revenues. Motorola's investment of more than \$1 billion makes it the largest U.S. investor in China today. Motorola's exports to China from the United States totaled roughly \$1.2 billion in 1995, supporting jobs in many states, including Arizona, Florida, Illinois, and Texas.

Cornerstones

Motorola's operations in China rest on the same two key beliefs that guide all of Motorola's operations worldwide -- respect for the dignity of the individual and uncompromising integrity in everything we do. These beliefs help create an environment of empowerment for all in a culture of participation. The commitment to teamwork and continual learning also are key elements in developing the company's operations in China and its partnership with the Chinese people.

Motorola has a business code of conduct that all employees worldwide are expected to uphold. Motorola has translated its code into Chinese, and this document is used to brief all new hires in China.

In 1994, Motorola University began the Chinese Accelerated Management Program (CAMP), an intensive management training program for high potential Chinese employees. CAMP's 14-month program includes classroom and on-the-job training, as well as a two month overseas posting.

In 1995, Motorola University provided more than 600 training days for customers and government officials, and more than 15,000 training days for employees in China. MU trained more than 500 of Motorola's China-based employees in English, and also conducted customer satisfaction and Six Sigma Quality training courses for employees from 40 Chinese supplier companies.

Motorola brought more than 600 Chinese to its U.S. facilities during each of the last three years for meetings on Motorola technologies, design meetings with engineers and technical training. The company's business units also provided more than 25,000 training days to employees at the Tianjin facility through on-the-job training and machine operator training.

In addition to in-house training, Motorola actively supports higher education in China. The company provided an estimated 2,000 scholarships over the last four years for Chinese students at technical universities, including Qinghua University, Beijing University,

Beijing Posts and Telecommunications University, Tianjin University, Nankai University and Fudan University.

Motorola established three microprocessor/microcontroller labs and five communications labs at universities in China, and will expand this program to 20 universities over the next five years. The company supplied electronics kits and technical manuals to about 30 universities throughout China in the past three years.

Motorola also is contributing to environmental and community efforts in China today. Motorola is the largest donor to the Hope Project in China, having given more than \$820,000 to this program that supports elementary schools in rural China.

In November 1995, Motorola became the first foreign company in China to co-sponsor -- with the Tianjin Environmental Protection Bureau -- an environmental protection symposium that brought together Chinese policymakers, regulators, scholars and practitioners from throughout the country.

Motorola has begun an employee home ownership program in an effort to attract and retain the best employees in China by providing a high quality living environment. This program, which is encouraged by the Chinese Government, covers construction financing, mortgage financing to the employees, funds for community amenities and a portion of the mortgage payment liability. The first two buildings covered under this pioneering program will be ready for occupancy by the end of 1996.


MOTOROLA

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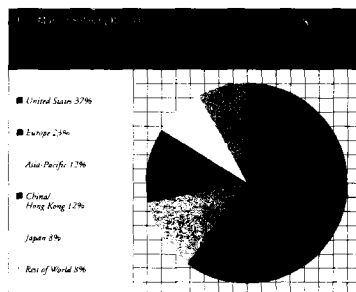
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Motorola facilities in China include Greater China headquarters in Beijing, manufacturing in Tianjin and branch offices in Shanghai, Guangzhou, Harbin, Nanjing and Chengdu.

Chairman CRANE. Thank you, Mr. Younts.
Chairman CRANE. Mr. Cohen.

**STATEMENT OF CALMAN COHEN, PRESIDENT, EMERGENCY
COMMITTEE FOR AMERICAN TRADE**

Mr. COHEN. Thank you, Mr. Chairman, for this opportunity to discuss the critically important issue of renewal of China's MFN trading status.

I am Calman Cohen, president of the Emergency Committee for American Trade. Like other leading U.S. trade associations and companies, ECAT participates in the Business Coalition for United States-China Trade. For 5 years, the Coalition has led the overall effort of the American business community to support MFN and expanded United States-China trade. I am testifying today on behalf of ECAT, but our views mirror those of the Business Coalition and the over 800 American companies, associations and farm organizations who are members of the Coalition.

Extending MFN is in America's national interest. MFN is the cornerstone of United States-China trade. It is also the foundation of overall United States-China relations. It provides a structure and an architecture which both countries can use to address a host of pressing bilateral concerns ranging from intellectual and property rights in arms proliferation to the improvement of the global environment and strengthening the rule of law.

With MFN, all things are possible between the United States and China; without MFN, the entire United States-China relationship is at risk. The promising future of further expanding American trade with China, to the benefit of both nations, would quickly revert to the bleak antagonism, mutual isolation, and commercial embargoes of the cold war.

Why should you be concerned about extending MFN? Quite simply, the economic stakes are enormous. Asia already accounts for over half of American trade. The Pacific rim includes some of the most dynamic and entrepreneurial economies of the world. In the next century, surging Asian demand for American technology, infrastructure, consumer products, and farm products can support hundreds of thousands of high-wage, high-skill American jobs.

China will be the engine that drives the Asia Pacific regional economy over the next decade. In many key technology sectors, China has the potential to drive global demand—a fact that has not been lost on our foreign competitors.

Today China is the fastest growing market in the world for American exports, purchasing about \$12 billion in U.S. merchandise exports annually and nearly \$2 billion in U.S. services. China is especially important as a future market for American agriculture. As market-oriented reforms take hold, China is beginning to develop a large middle class which offers a market for American meats, grains, and processed foods.

United States-China trade also supports hundreds of thousands of jobs in American retail establishments, consumer goods companies, ports, and transportation companies. China has emerged as a vital source of imported footwear, toys and apparel for middle-class American households.

In terms of the cost for American consumers, revoking MFN would represent the equivalent of a \$302 tax increase for the average American family.

All Americans support the goal of promoting international respect for human rights. American companies are committed to being good corporate citizens. We believe that expanded trade offers the best tool for advancing human rights objectives.

In the last decade, China's free market economic reforms, which American trade and investment help to support, have truly transformed Chinese society. Today China is more entrepreneurial, more dynamic, and I hasten to add, more free. Living standards are rising rapidly. Ordinary Chinese now are free to choose their own place of work, travel, and pursue entrepreneurial opportunities.

Mr. Chairman, we urge the Subcommittee to begin thinking of ways to move beyond the divisive annual debates over MFN which have become increasingly counterproductive. Two decades ago, Congress enacted Jackson-Vanik. This amendment was passed during the midst of the cold war. It was designed to promote freedom of immigration for Soviet Jews. The cold war is over, but U.S. trade law still requires Congress each year to review and vote on the President's determination.

The annual debates over revoking or conditioning MFN have long since ceased to provide leverage on human rights and instead are becoming a serious roadblock to implementing long-term U.S. strategies to deal with an emerging global power.

Mr. Chairman, the focus of U.S. trade law on annual resolutions to revoke MFN has put the administration and congressional leadership in the difficult position of defending and characterizing progress in China in terms of artificial 12-month increments. Whether it is trade, human rights or the global environment, the United States has little choice but to remain engaged with China for the long haul.

The American business community welcomes your leadership, Mr. Chairman, and support and the support of many Members of this Subcommittee for unconditional renewal of China's MFN trading status. This is an important issue. The stakes for American companies and their workers are very high.

We look forward to working closely with you and the Subcommittee on a bipartisan basis in the weeks ahead.

Thank you.

[The prepared statement follows:]

June 11, 1996

**STATEMENT OF MR. CALMAN COHEN
EMERGENCY COMMITTEE FOR AMERICAN TRADE
BEFORE HOUSE WAYS AND MEANS
SUBCOMMITTEE ON INTERNATIONAL TRADE**

Thank you for this opportunity to discuss the critically important issue of renewal of China's MFN trading status. I am Calman Cohen, President of the Emergency Committee for American Trade (ECAT). ECAT consists of the heads of leading U.S. firms representing all major sectors of the U.S. economy. The annual worldwide sales of our member companies total over \$1 trillion and support about 4 million jobs.

Like other leading U.S. trade associations and companies, ECAT participates in the Business Coalition for U.S.-China Trade. For five years, the Business Coalition has led the overall effort of the American business community to support MFN and expanded U.S.-China trade. I am testifying today on behalf of ECAT, but our views mirror those of the Business Coalition and the over 800 American companies, trade associations, and farm organizations who are members of the Business Coalition.

Extending MFN is in America's national interest. MFN is the cornerstone of U.S.-China trade. It is also the foundation of overall U.S.-China relations. It provides a structure and architecture which both countries can use to address a host of pressing bilateral concerns ranging from intellectual property rights and arms proliferation to the improvement of the global environment and strengthening the rule of law. With MFN, all things are possible between the U.S. and China. Without MFN, the entire U.S.-China relationship is at risk. The promising future of further expanding American trade with China to the benefit of both nations would quickly revert to the bleak antagonism, mutual isolation, and commercial embargoes of the Cold War.

Why should you be concerned about extending MFN? Quite simply, the economic stakes for American trade are enormous. Asia already accounts for over half of American trade. The Pacific Rim includes some of the most dynamic and entrepreneurial economies of the world. In the next century, surging Asian demand for American technology, infrastructure, consumer products, and farm products can support hundreds of thousands of high-wage, high-skill American jobs.

China will be the engine that drives the Asia-Pacific regional economy over the next decade. According to the International Monetary Fund, China is already the world's third-largest economy, trailing only the United States and Japan. Its economy has been growing by 10 percent annually. The World Bank has estimated that China needs to invest over \$700 billion in new infrastructure over the next decade to sustain its economic growth, including transportation, power, telecommunications, water and sanitation, and environmental projects. Thus, in many key technology sectors, China has the potential to drive global demand -- a fact that has not been lost on our foreign competitors.

Today, China is the fastest growing market in the world for American exports. It purchases about \$12 billion in U.S. merchandise exports annually and nearly \$2 billion in U.S. services. These exports support over 200,000 American jobs. Leading U.S. exports to China include aircraft, telecommunications equipment, grain, computers, motor vehicles, power generation equipment, fertilizers, and specialty chemicals. Our exports to China have doubled since 1990 and rose by 27 percent last year.

China is especially important as a future market for American agriculture. Earlier this year, Congress enacted a historic "freedom to farm" bill that implements major reforms to our farm subsidy programs. If American farmers are to prosper under a more market-oriented farm program, they need continued access to overseas markets, not trade embargoes. China is already the sixth-largest foreign customer for American agriculture. It is projected to import 12 million tons of wheat and 2.0 million tons of corn in 1996 - 1997. As market-oriented reforms take hold, China is beginning to develop a large middle-class, which offers a market for American meat, grains, and processed food. USDA estimates 75 percent of the future growth in American agricultural exports will be in Asia, of which 50 percent will come from China alone.

U.S.-China trade also supports hundreds of thousands of jobs in American retail establishments, consumer goods companies, ports, and transportation companies. China has emerged as a vital source of imported footwear, toys, and apparel for middle-income American households, replacing other Asian suppliers, like Taiwan, Korea and Hong Kong, which are shifting to production of higher value-added merchandise. In terms of the cost for American consumers, revoking MFN would represent the equivalent of a \$302 tax increase for the average American family.

All Americans support the goal of promoting international respect for human rights. American companies are committed to being good corporate citizens wherever they do business. We believe that expanded trade offers the best tool for advancing U.S. human rights objectives.

In the last decade, China's free market economic reforms, which American trade and investment help to support, have transformed Chinese society. Today, China is more entrepreneurial, more dynamic, and more free. Living standards are rising rapidly. Ordinary Chinese now are free to choose their own place of work, travel, and pursue entrepreneurial opportunities outside state-owned enterprises or a work unit. Satellite dishes give millions of Chinese access to foreign television programs. Western books and magazines are widely available. Hundreds of millions of Chinese are experiencing the opportunities and excitement of market capitalism first-hand. While China has a long way to go, the outlines of a civil society are beginning to emerge.

The rise of a market economy in China represents a fundamental long-term challenge to the power of the state. Revoking or conditioning MFN would undermine, not advance, progress toward freedom and democracy and the rule of law. U.S. economic sanctions would undermine the very forces in Chinese society which are pushing for greater liberalization.

Mr. Chairman, we urge the Subcommittee to begin thinking of ways to move beyond the divisive annual debates over MFN which have become increasingly counter-productive. Two decades ago, Congress enacted the Jackson-Vanik Amendment to the Trade Act of 1974. This amendment was passed during the midst of the Cold War. It was designed to promote freedom of emigration for Soviet Jews. The Cold War is over. But U.S. trade law still requires Congress each year to review and vote on the President's determination to extend China's MFN trading status.

The annual debates over revoking or conditioning MFN have long since ceased to provide leverage on human rights, but instead are becoming a serious roadblock to implementing long-term U.S. strategies to deal with an emerging global power. We need to consider better ways to stabilize, improve, and eventually restructure U.S.-Chinese commercial relations.

The focus of U.S. trade law on annual resolutions to revoke MFN has put the Administration and Congressional leadership in the difficult position of defending and characterizing progress in China in terms of artificial 12-month increments. Whether it is trade, human rights, or the global environment, the United States has little choice but to remain engaged with China for the long-haul. Engagement recognizes that both countries will be far better off if they work with each other than if commercial relations are allowed to deteriorate into public recriminations, economic sanctions, and mutual isolation.

There is no greater challenge for U.S. trade policy than bringing China into the global trading system under an appropriate protocol, which would subject Asia's largest country to the same international rules, disciplines, and free market forces which have brought increased prosperity, freedom, and openness to countries around the world.

Mr. Chairman, the American business community welcomes your leadership and support and the support of many Members of this Subcommittee for unconditional renewal of China's MFN trading status. This is an important issue. The stakes for American companies and American workers are very high. We look forward to working closely with you and the Subcommittee on a bipartisan basis in the weeks ahead. Thank you.

Chairman CRANE. Thank you, Mr. Cohen.

Chairman CRANE. Mr. Snyder.

**STATEMENT OF DAVID F. SNYDER, ASSISTANT GENERAL
COUNSEL, AMERICAN INSURANCE ASSOCIATION**

Mr. SNYDER. Mr. Chairman, thank you for the opportunity to testify on behalf of the American Insurance Association in support of unconditional renewal of most-favored-nation status for China.

The American Insurance Association represents over 250 major property and casualty insurers which write \$60 billion in premiums annually in this country. Despite our name, many of those companies are foreign-based, and add significantly to the capacity of the U.S. insurance market and to the investment in the United States, which exceeds \$550 billion, much of that in infrastructure investment.

I would like to briefly make five points this afternoon.

First, AIA recognizes that America's economic and national security interests mandate continued MFN status for China. Only by building and maintaining a stable, growing trade relationship with China can we expect to have a strong voice in its economic future. The official encouragement in China of a market-based economy and a more open trade regime has resulted in the rapid growth of their economy, an increase in living standards and a historic opportunity for American business to contribute and help mold China's modernization.

Second, because American corporations have made a major stake in China's future, America can have an influence in China's economic progress. We have all seen the export statistics—almost 200,000 American jobs rely on our exports to China. We cannot simply afford to be shut out of that market.

So far, however, China has severely limited access to its markets by U.S. insurers. To our knowledge, in fact, only one U.S. insurer has been granted the authority to do business directly in China. This is not to say, however, that other insurance activities are not taking place. Several AIA members maintain representational offices and have joint ventures. Several AIA members have initiated specialized training for Chinese officials. AIA members have provided training in the United States in loss control techniques.

U.S. insurers have also introduced to China advanced techniques and technology for collecting and utilizing vital risk assessment data. Additionally, AIA members have conducted detailed studies of catastrophic exposures, including damage from earthquakes, typhoons and floods. Our members have studied and reported on insuring China's power industry, computer industry, mining industry and industrial parks to the various ministries.

Third, insurance market liberalization is in China's interest as well as ours. In a more open market, our members could bring more insurance methodology and modern technology to China, which could lead to an expansion of their insurance market. The acquisition of skills in this area would allow those skills to be used elsewhere in critical areas of China's economic infrastructure.

AIA members could complement China's domestic insurance industry and help create new areas of coverage and risk management services and help attract foreign investment. Increased foreign insurance presence could help China to continue to expand its economy because it will help it bring additional investment, investment that often is predicated on the availability of insurance for property, liability, and life insurance.

Fourth, revoking China's most-favored-nation status would have many negative consequences. Obviously, it would raise our average tariff on Chinese goods from 4.6 to 40 percent, which would make trade all but impossible, and potential revenue would be denied U.S. companies, including insurers. Their likely retaliation would cost the United States \$14 billion in direct exports plus much of our \$17 billion in exports to Hong Kong. Millions of Chinese workers in coastal export factories would lose their jobs just as hundreds of thousands of American export jobs would have to be terminated. And I ask, How would that help achieve any of the objectives that you have heard so far during this hearing?

Fifth, maintaining China's most-favored-nation status is only the beginning in opening its markets, including its insurance markets. The fact remains that the insurance market in China is not for the most part open to the United States and other foreign insurers. Essentially, only one U.S. insurer has been granted the authority to operate directly. Whatever the size or the sophistication of that company, it is not capable of providing the benefits to China that a much more open market could provide.

Accordingly, we urge continuing efforts to achieve broader China market access through the World Trade Organization negotiations and all other appropriate forums. As Secretary Christopher said; "It is a worthwhile thing that if they are going to be members of the international community, if they are going to have the benefit of institutions that have been created in the post-World War II period, there are certain rules that need to be followed for membership. The World Trade Organization is a very good case in point."

"For nations to become members of the World Trade Organization, it is quite natural that the other countries require a certain amount of market access, especially for leading nations such as China. So, we have strongly encouraged their membership in the World Trade Organization, but on acceptable terms, on terms that would provide the kind of access that other great nations provide."

We urge action consistent with Secretary Christopher's comments.

In conclusion, we commend the President, Speaker Gingrich and Senator Dole for their support of renewal of most-favored-nation status for China. They recognize that only through sustained dialog supported by growing trade relations can the United States have a voice in China's economic future. Termination of MFN status for China would only serve to isolate the United States at a time when unprecedented economic growth and reform are occurring in China. China would continue to grow, America's trading competitors would gain market share and jobs, while the United States would lose both.

Most-favored-nation status is, however, the beginning and not the end in providing for adequate openness in the insurance and

other markets in China, and in maximizing the benefits for both the United States and China in increased business of all kinds and insurance investment in China by U.S. insurers. We urge continuing efforts to achieve broader access to the Chinese insurance market through WTO negotiations and all other appropriate forums.

Thank you, Mr. Chairman.

[The prepared statement and attachments follow:]

**STATEMENT OF
DAVID F. SNYDER
ASSISTANT GENERAL COUNSEL
AMERICAN INSURANCE ASSOCIATION**

Mr. Chairman and Members of the Subcommittee.

Thank you for this opportunity to testify on behalf of the American Insurance Association (AIA) in support of unconditional renewal of Most Favored Nation (MFN) status for China.

AIA represents over 250 major property/casualty insurance companies which write \$60 billion in premiums annually, hold assets of \$155 billion and have decades of experience in trade in China. Among AIA members are a surprising number of companies which are foreign owned, for example by companies based in Japan, Great Britain, The Netherlands, Switzerland, Germany and elsewhere. These companies add significantly to the capacity of the U.S. insurance market and to property and casualty insurers' investment in the U.S., which exceeds \$550 billion dollars, a substantial portion of which supports infrastructure.

AIA recognizes that America's economic and national security interests mandate continued MFN status for China.

Only by building and maintaining a stable, growing trade relationship with China can we expect to have a strong voice in its future. During the past four years, China's economy has expanded by 56 percent. In 1995, foreign investment in China reached nearly \$50 billion - up from \$30 billion in 1994. This economic growth has led to sharply rising incomes and living standards for many of China's citizens. But, there is more to be done. China has ambitious plans to improve the country's basic infrastructure and expansion of vocational education opportunities.

When Western Europe, North America, and Japan began establishing modern consumer economies after World War II, they were home to some 340 million, 190 million and 100 million people respectively. Today, China is has a population of 1.2 billion and an economy that is expanding at a great rate. The official encouragement of a market based economy and a more open trade regime has resulted in rapid growth of China's economy, an increase in living standards and a historic opportunity for American business to contribute to China's modernization.

Because American corporations have made a major stake in China's future, America can have an influence in China's progress.

In 1995, U.S. merchandise exports to China exceeded \$12 billion, an increase of 26% over 1994. These exports have produced over 200,000 high-skilled, high wage jobs in leading American industries, such as telecommunications, energy, aircraft, and machine tools. Today, China is the most rapidly growing market in the world. American workers and companies can not afford to be shut out of it.

So far, China has severely limited access to its markets by U.S. insurers. To our knowledge, only one U.S. insurer has been granted the authority to do business directly in China. This is not to say, however, that other insurance activities are not taking place.

Several AIA members maintain representational offices and have entered into joint ventures with Chinese companies in Beijing, Shanghai, Guangzhou and numerous other major Chinese cities. Several AIA members have initiated specialized training for Chinese insurance officials, regulators, agents and brokers. AIA members have provided training in the U.S. in loss control techniques to Chinese insurance professionals.

U.S. insurers have also introduced to China the most advanced technologies for collecting and utilizing vital risk assessment data. Additionally, AIA members have conducted detailed studies of catastrophic exposures, including damage from earthquakes, typhoons and floods. Our members have studied and reported on insuring China's power industry, computer industry, mining industry and industrial parks to the various ministries.

In a more open market, our members could bring modern insurance methodology and technology to China which could lead to an expansion of the entire insurance market. This would facilitate China's modernization by making it easier for foreign high technology companies to invest in China. This technical knowledge would be shared with resident employees of foreign insurers. The acquisition of new skills raises the education level and productivity of the work force which

enables this technical knowledge to be spread to critical areas of China's economic infrastructure.

AIA members could complement China's domestic insurance industry and help create new areas of coverage and risk management services which could increase the size of China's insurance market and attract critical, high technology foreign investment. Foreign insurers could add external financial capital, in the form of foreign direct investment and deposit/guarantee funds, to China's economy, to help finance infrastructure projects.

Increased foreign insurance presence could help China to continue to attract foreign investors and modernize. Global investors demand evidence of insurance coverage--such as property, liability, or life insurance--before they invest. This coverage protects their manufacturing facilities in China and assures acceptance of their products in the international marketplace. State of the art insurance services and products, therefore, are critical building blocks in China's future and provide unparalleled opportunities for America.

Revoking China's MFN status would have many negative consequences.

Revoking MFN would raise our average tariff on Chinese goods from 4.6 to 40 percent, which would make trade all but impossible, and potential revenue would be denied U.S. companies, including insurers. If MFN were revoked, China would lose about \$44 billion in exports to the U.S., which is nearly a third of its total world sales. Their likely retaliation would cost the U.S. \$14 billion in direct exports plus much of our \$17 billion in exports to Hong Kong. The consequences for both of our nations would be extremely grave. Millions of Chinese workers in coastal export factories would lose their jobs, just as hundreds of thousands of American export jobs would have to be terminated.

Maintaining China's MFN status is only the beginning in opening its insurance market.

The fact remains that the insurance market in China is not, for the most part, open to U.S. insurers. This lack of market access is harmful to China by unnecessarily reducing the benefits of insurance market liberalization, and also to the U.S. and U.S. insurers. Accordingly, we urge continuing efforts to achieve broader China market access through World Trade Organization negotiations and all other appropriate forums. As Secretary Christopher said on May 17, 1996:

It is a worthwhile thing that if they're going to be members of the international community, if they're going to have the benefit of institutions that have been created in the post-World War II period, there are certain rules that need to be followed for membership. The World Trade Organization is a very good case in point.

For nations to become members of the World Trade Organization, it's quite natural that the other countries require a certain amount of market access, especially for leading nations such as China. So we have strongly encouraged their membership in the WTO, but on acceptable terms, on terms that would provide the kind of access that other great nations provide.

We urge action consistent with Secretary Christopher's comments.

Conclusion

We commend the President, Speaker Gingrich and Senator Dole for their support of renewal of unconditional MFN status for China. They recognize that only through sustained dialogue, supported by growing trade relations, can the United States have a voice in China's future. Termination of MFN status for China would only serve to isolate the United States at a time when unprecedented economic growth and reform are occurring in China. China would continue to grow, America's trading competitors would gain market share and jobs, while the U.S. would lose both.

MFN status is, however, the beginning and not the end in providing for adequate openness in the insurance market in China and in maximizing the benefits for both the U.S. and China in increased insurance business and investment in China by U.S. insurers. We urge continuing efforts to achieve broader access to the Chinese insurance market through WTO negotiations.

Mr. Chairman, thank you for this opportunity to testify in support of unconditional MFN status for China. I would like to submit the attached May 30, 1996 letter from Mr. Robert E. Vagley, AIA's President, into the Record, along with two graphs which illustrate America's growing stake in China and conclude by urging this Subcommittee to support American economic and national security interests by renewing MFN for China.



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May 30, 1996

The Honorable Newt Gingrich
 Speaker
 United States House of Representatives
 2428 Rayburn House Office Building
 Washington, D.C. 20515

Dear Mr. Speaker:

The American Insurance Association is a trade organization representing more than 250 property and casualty insurance companies, which employ more than 150,000 people, write \$60 billion in premiums, and pay nearly \$2.2 billion in state taxes and licensing fees each year. The AIA has its headquarters in Washington, D.C., and has representatives in every state. AIA's International Committee is comprised of high-level member company executives whose jobs are to oversee international developments and policies for their companies.

It is on behalf of our International Committee that I am writing you to express our members' concerns about U.S. proposals to impose trade sanctions against the Chinese and Chinese public statements that they will exclude American companies from business opportunities in China if the U.S. imposes trade sanctions or attaches conditions to renewal of China's MFN status.

While our members understand the complex mix of issues facing the Administration and Congress in the renewal of China's MFN status this year, we strongly believe that China should be granted unconditional MFN status without imposition of other trade sanctions. This recommendation does not, of course, preclude continued Sino-American discussions on multiple levels. Given the U.S. presidential election this Fall and succession issues within the Chinese leadership, this is a time of multiple political sensitivities on both sides and hence a time to do everything possible to maintain a bilateral dialogue.

If I can help answer any questions you may have regarding our members' position on this issue, please do not hesitate to call.

Sincerely,

Robert E. Vagley
 President

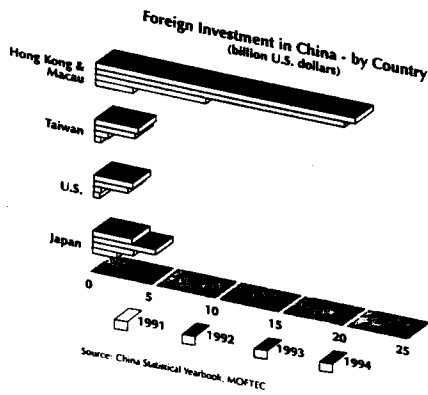
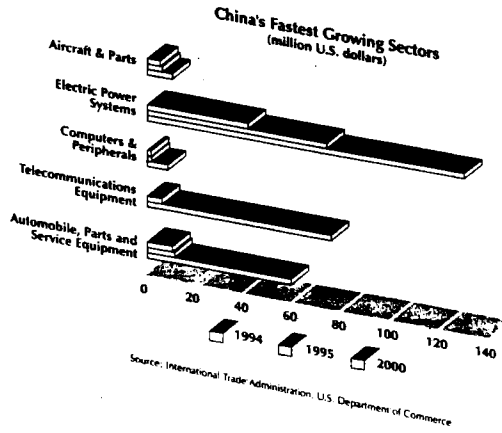
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 VICE CHAIRMAN

ROBERT E. VAGLEY
 PRESIDENT



Chairman CRANE. Thank you, Mr. Snyder.
Chairman CRANE. Mr. Kapp.

**STATEMENT OF ROBERT A. KAPP, PRESIDENT, UNITED
STATES-CHINA BUSINESS COUNCIL**

Mr. KAPP. Thank you, Congressman Crane, and thank you for letting me join you again this year, the third year in a row that I have had the pleasure of representing the United States-China Business Council and its 300 member companies at a hearing of this Subcommittee.

As we begin, I wanted to make sure that I called your attention to an attachment that I submitted with my testimony, prepared by the United States-China Business Council, called "U.S. Corporate Practices in China: A Resource Guide," which we hope will provide a useful guide to some of the ways in which American companies today operating in China have adopted socially constructive and positive activities and programs as a part of their presence in the People's Republic.

Most of the points that are in my written testimony have been touched on not only by other speakers today, but by other speakers in other years, so I will not dwell on them at length. In order to give the most fluent presentation, let me read a little bit of something that I prepared for another hearing last week, which I hope will actually speak back to some of Mr. Rangel's points, while introducing a little bit of a perspective on the way we look at China and the way we approach China as a business community and as a country.

It is important to view China as a work-in-progress and not as a portrait frozen in time. The image of a static frozen Chinese monolith is simply mistaken and coexists uneasily with demonic images of a China in the midst of uncontrollable and unstable change.

Businesspeople in particular have experienced intimately, for better or worse, the bureaucratic fluidity, the uneasy mixing of advanced globalism and narrow xenophobia, the policy shifts, and the burst of entrepreneurial energy that characterized China's approach to what they call "the outside world."

Our experiences in business tell us: First: that an ancient, secretive and deeply bureaucratic and long autocratic society is profoundly in flux; second, that the transformation of the economic condition of a population five times our own, a population which, incidentally, will increase by 300 million between the year 1980 and the year 2010, from grinding poverty and colossal misery to even the lower rungs of the middle-income ladder, is the work of many decades; third, that old habits of paralyzing bureaucratic sterility and "government by personal connections" decline slowly and die hard; fourth, that the rule of law as Americans conceive of it has not hitherto existed in China and may not, evolve as a close replica of our system in the future; and fifth—and this one I want to dwell on because it is a complicated sentence, but it is a point that I think is especially relevant to the Congress—that China can act in ways that Americans wish it to act, and can even do things we press it to do, but that it is futile to expect China to proclaim

publicly that U.S. pressure caused it to take the actions we desired of them.

I would like nothing better than to persuade all the members of the previous panel of this hearing to come around to our point of view on MFN. But even if they ever did so, could I reasonably expect that they would stand up and say, "We have changed our minds on MFN because of what Bob Kapp told us"? Absolutely out of the question. Similarly, there are many cases in which China has acted in ways that we would like to see them act, but we cannot sit and wait for the Chinese to say to the world, "We did it because the Americans told us to"; it is simply not going to happen.

The final points are that American participation in China's economic transformation is compatible with and supportive of American ideals and widely shared American hopes for China's future, but that the Chinese drama is, at bottom, China's to play and not ours to direct; that off-again, on-again encounters with China, punctuated annually by periodic searing blasts of public denunciation of China's and social behavior, are a recipe for persistent disappointment; that the economic and trade ties between the two countries which now, since the collapse of the Soviet threat, provide the essential foundation for the maintenance of United States-China normal intercourse on the wide range of global and regional issues that we must address, are robbed of crucial predictability by the omnipresent threat of MFN destruction; that it is possible, through long, laborious, constant effort and the gradual development of effective communication and confidence, for U.S. and Chinese counterparts ultimately to make progress and find common ground, but that it is nearly impossible to do so without that heavy commitment of time and effort.

We believe that China's trajectory has not been a straight line. It will not be a straight line in the future. It may take decades for many far-reaching questions in China's development in all sectors to be answered clearly.

We in the business community sense at close range the see-saw debates that lie below the surface of daily life in China as China ponders its daunting choices—toward greater globalism or more doctrinaire nationalism; toward an even more rapid marketization of the Chinese economy with its attendant risks of social dislocation, or toward more conservative policies protective of longstanding state sector interests; toward fuller cooperation with the United States and the industrial democracies, both bilaterally and in multilateral institutions, or chart a narrow and less accommodating stance aimed at the United States.

We believe that America and American companies developing business with China have opportunities to play a constructive role in China's evolution along lines compatible with our hopes and values, but we recognize that we cannot and should not presume to design China's course for the Chinese and that we will fail if we presume to do so.

We know all too well that our competitors around the world are waiting in the wings to snap up the very large and growing business opportunities that the United States will cast away if basic, normal economic relations between our countries are ruptured. We know full well that the United States must and does defend its core

interests in relations with China as with any country, but we feel that the aborting of large and rapidly growing economic ties between us is the very opposite of an effective strategy in this regard.

We know that a deep reservoir of good will exists in the United States toward China, and in China toward the United States, and in that regard, as I conclude, we urge that Congress and the White House jointly and in a bipartisan manner rededicate themselves to the cultivation of the positive aspects of a long and complex United States-China relationship. American companies do it; local communities do it; colleges and universities do it; foundations and non-governmental organizations do it; families do it. The U.S. Government in a bipartisan manner can and should do its part as well.

Thank you, Mr. Chairman. In conclusion, let me simply say to those who would kill MFN, destroy a \$60 billion trade relationship, and bring American-Chinese relations to their knees, when you deliver the gift contracts and jobs to our foreign competitors around the world, I hope very much that you will not fail to sign the card.

Thank you.

[The prepared statement and attachments follow.]

The booklet, "U.S. Corporate Practices in China: A Resource Guide," is being held in the Committee's files.]



The United States-China Business Council

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**Testimony of Robert A. Kapp, President
United States-China Business Council
Before the Subcommittee on Trade and Human Resources, Committee on Ways and Means
U.S. House of Representatives
June 11, 1996**

Mr. Chairman:

Thank you for the opportunity to return to your hearing room to offer the perspectives of the U.S. business community at this year's hearing on U.S.-China Trade and the renewal of normal tariffs on imported products from the People's Republic of China.

The US-China Business Council is the principal organization of American companies engaged in trade and investment with the People's Republic of China. Supported by a growing roster of more than 300 major U.S. companies, the Council continues this year to urge, as it has in the past, the maintenance of stable, normal economic relations between the U.S. and China.

We are in the seventh year of this process. There is little to be said that has not been said in some form before. The size and dynamism of overall U.S.-China commercial relations has continued to increase over the past year. The relevance of U.S.-China business to people in all walks of American life, in all of our states, has continued to intensify. U.S. merchandise exports to China, for example, rose 27% in 1995 over 1994, and together with exports to China through Hong Kong account for nearly a quarter of a million U.S. jobs. The year-on-year trade and investment numbers for 1995 are indeed new, and they are impressive.

The two nations have, however, had a difficult year in government-to-government relations, both in the field of international trade and in non-trade areas. The sense of exasperation with each other's behavior is more evident now in both countries than it was a year ago. To the long-discussed issues of human rights, proliferation and trade frictions have recently been added heightened feelings of concern in many U.S. quarters over the future of mainland-Taiwan relations and over the implications for U.S. security of the development of Chinese regional and global military strength. In China, the tensions of the past year have apparently led to a growing concern over the long term intentions of the United States as China continues its rapid economic growth.

Under these circumstances, the corrosive influence of the annual MFN exercise in which Congress is now engaged is not helpful to the resolution of outstanding U.S.-China issues in any field.

Let me thus briefly discuss a series of points relating to MFN revocation and renewal. I am happy to discuss them further in question and answer.

1. First, the most obvious point of all still bears repeating: MFN equals NST. "Most Favored Nation" equals "No Special Treatment." Of the nearly-two hundred nations and territories with whom the U.S. trades, only seven -- all of them insignificant trade partners -- do not enjoy MFN-level tariffs on their goods entering the U.S. Many countries enjoy U.S. tariffs lower than MFN-level tariffs. MFN is not a special favor, not a gift, not "preferential trade treatment." It is the bedrock of this country's normal, routine trade with the world.
2. Economics and trade are the foundation of U.S.-China relations. The Soviet threat is gone. Our two giant nations occupy a crowded and troubled globe. Ignoring one another is literally impossible. Burgeoning economic relations, despite individual trade disputes, are the main channel for the preservation of stable relations between the two countries; they form the foundation for cooperative relations in other vital fields. If economic and trade relations are cut off, the full range of U.S.-China interactions will be compromised. That is not in the U.S. national interest.

3. It is time, as one Senator remarked at a hearing last week, to reject hypocrisy on the China MFN issue. The presence of major human rights abuses, now and in the past, in other nations with which the United States conducts normal trade relations is no secret. To this day, the U.S. maintains MFN with nations whose international conduct it deplores and denounces in the strongest terms.

Here is an example from the recent past. One of the most moving and praiseworthy developments in Taiwan's political development over the past few years has been the willingness of Taiwan's leaders to come publicly to terms at last with the facts of the military suppression in 1947 of a popular protest uprising by the people of Taiwan against the very party regime whose descendants still govern Taiwan -- a suppression in which twenty thousand people are now estimated to have been killed. The public acknowledgment of that tragedy today is one of the finest testimonials to the political openness that has come to Taiwan in recent years. Yet it is worth noting that forty five years of silence elapsed between the time of the tragedy and its emergence into public view. During that time the United States did absolutely nothing to respond punitively to what was well known to have happened.

4. Revoking MFN will have very serious economic consequences. It will bring U.S.-China trade and economic relations essentially to a halt. Nearly a quarter of a million U.S. jobs are directly attributable to U.S. exports to China, both direct and via Hong Kong. Chinese imports to the U.S. account for additional jobs in the transportation, distribution, services, and retail sectors, offering goods of desired quality at economical cost to American buyers and consumers including those with the most limited means. A just-completed study estimates the potential cost to American consumers of the shutdown of Chinese imports at up to \$29 billion. The study finds that American exporters would lose large and growing markets to third-country competitors, at the risk of nearly 200,000 U.S. jobs.

5. Taiwan and Hong Kong, together with the People's Republic of China, today form "Greater China"; the impact of catastrophic damage to U.S.-mainland trade spills over upon the very territories that some of MFN's most virulent opponents admire and wish to support the most. Hong Kong delivers its appeal each year to Congress to preserve normal U.S.-China trade and keep Hong Kong out of harm's way. Governor Chris Patten has made the same case this year during his recent visit to Washington, urging Congress to save Hong Kong from the havoc that MFN revocation would wreak on the territory as it approaches the politically sensitive moment of transition to Chinese sovereignty. The leader of the Democratic Party in Hong Kong, Mr. Martin Lee, has himself called for the continuing of MFN. While the authorities on Taiwan have not formally expressed themselves on the subject, well-placed private figures with impeccable government contacts have done so, as in the case of an important article in the Wall Street Journal last May 7. Taiwan investors have put \$25 billion into mainland facilities, many of them producing for U.S. markets goods that formerly went from Taiwan to the United States. I urge those who would revoke MFN as a means of expressing solidarity with Taiwan in the face of threats from the People's Republic to contact quietly their Taiwan government friends for their views on MFN renewal. I am confident that most would advise leaving MFN untouched.

6. U.S. business knows perfectly well that dealing with the PRC is not easy, and that stable and successful cooperation with China is the work of years of patient and laborious effort. In fact, with years and even decades of direct experience working at all levels of Chinese society and government, we believe that American businesses understand the challenges of building successful relations with PRC counterparts better than many other Americans who view China through the lens of theory or the filter of U.S. media coverage. The Chinese business environment is always challenging, sometimes daunting. Certain business sectors experience particularly acute difficulties: the current intellectual property rights battle is a case in point. Aspects of China's recent economic and commercial policy development are troubling, even as other aspects are encouraging.

There is no need to list here the concerns of American companies one by one; suffice it to say that nearly every U.S. firm in China has experienced problems on some issues and would like to see China's commercial behavior change in particular ways.

Nevertheless, the essential point is that with virtually no exceptions the more than 300 major companies that make up the US-China Business Council agree: destroying normal trade relations by revoking MFN would be profoundly counterproductive. MFN revocation is simply not an appropriate response to specific difficulties in the trade and business environment.

8. It has recently been asserted that the value of the annual Congressional MFN debate lies in providing a venue for the publication and criticism of Chinese abuses in such fields as human rights and labor rights. Such publicity, it is argued, has a constructive effect in forcing the rate of progressive change inside China.

But Congress doesn't need to threaten the breakdown of U.S.-China economic relations just in order to have a hearing. While we believe very strongly that highly public and politicized denunciations of the Chinese government are likely to lessen rather than increase the likelihood of U.S.-China cooperation on most outstanding problems, the Congress can hold hearings and make statements about China anytime it likes, without perpetually threatening to kill normal economic relations worth sixty billion dollars, throw hundreds of thousands of Americans out of work, and impose substantial new burdens on American consumers.

Finally, let me urge the many Members of Congress genuinely concerned over the problem of personal moral responsibility to consider the likely effects of a decision to try to wash America's hands of further relations with China by killing normal economic intercourse: the breakdown of normal bilateral communication on all issues, both commercial and noncommercial; the deepening of confrontation between the U.S. and China on all outstanding issues and on newly arisen problems; the strengthening of the most nationalistic and anti-American elements within China's political leadership and civilian elites; the wreaking of economic destruction on the most internationally-oriented sectors of Chinese economy and society; delivery of an economic body blow to Hong Kong on the eve of its transition to Chinese sovereignty; the list goes on.

I do not see how dismantling the vast and generally productive economic relationship between the United States and China can provide, to conscientious legislators justly anguished about the ethical implications of their decisions, the comforting assurance that they have satisfactorily kept their hands uncontaminated by conditions they deplore.

To the contrary: those who are genuinely animated by a personal desire to be true to their personal ethical beliefs might well ask themselves how they, holding elective office, can work in positive directions to expand and intensify the range of U.S.-Chinese interactions both commercial and non-commercial.

There is much to consider, much to do. American businesses do their part, and the constructive role that U.S. business activity in China does play today merits acknowledgment.

American local communities and cities do their part. American non-governmental organizations do their part. American colleges and universities have made enormous contributions. Chinese in an increasingly pluralized society can do their part, and an increase in their efforts jointly with American efforts to rebuild normal and fruitful relations would be profoundly helpful.

MFN renewal this year guarantees none of that progress. MFN revocation, however, precludes it. Let us renew "NST" -- "No Special Treatment" trade with China now, work to end the annual MFN controversy, and move on to the more strategic challenges of life on a small planet with a big and much too unfamiliar neighbor.

Thank you.



MFN FACT SHEET

(June 1996)

◆ **What is MFN?** Most Favored Nation (MFN) refers to the standard or "general" tariff treatment the US extends to other countries in return for reciprocal tariff treatment for US exports. MFN has been extended to China on a reciprocal basis every year since 1980. MFN is not a special privilege or reward, nor is MFN the *most* favored tariff treatment the US provides. Special tariff treatment, *more favorable* than MFN, is provided to over 31 countries and territories (and as many as 151 countries and territories should the Generalized System of Preferences (GSP) program be renewed) under the following special tariff programs:

North American Free Trade Agreement (NAFTA)
 Agreement on Trade in Civil Aircraft
 Automotive Products Trade Act
 Caribbean Basin Economic Recovery Act
 United States-Israel Free Trade Area
 Andean Trade Preferences Act

Under these programs, designated products may be imported at reduced or duty-free rates. China is **not** eligible for any of these programs.

◆ **Who has MFN?** Over 160 countries have MFN trading status with the United States, including such pariah states as Iran, Iraq, and Libya (although the US has imposed other trade sanctions on these countries).

◆ **Who doesn't have MFN?** It is far easier to identify who doesn't have MFN with the United States:

Afghanistan	Cuba	North Korea	Serbia/Montenegro
Cambodia	Laos	Vietnam	

Under the Jackson-Vanik amendment to the Trade Act of 1974, a measure originally directed against the Soviet Union, MFN is denied to any "non-market economy" determined by the President to restrict free emigration. The President may waive the Jackson-Vanik restrictions if he determines the country permits free and unrestricted emigration or if he believes MFN would promote free emigration.

In recent years, the annual debate on China's MFN status has provided a forum for members of Congress to register their concerns on a broad range of bilateral issues extending far beyond the narrow criteria described in Jackson-Vanik. However, threatening MFN withdrawal has proven to be ineffective in addressing any of these issues.

♦ **The mechanics of MFN extension/withdrawal:** China's MFN status expires on July 3, 1996. By law, the President must inform Congress no less than 30 days prior to that date of his intention to *renew or withdraw normal trading privileges*.

Congress may overturn a decision to extend MFN to China by passing a joint resolution of disapproval--a straight "up or down" vote on MFN extension. Note, no Congressional action is required to support extension. The joint resolution to deny MFN is privileged and must be considered under "fast track" procedures; it may not be amended or bottled up in committee.

Should the Congress decide to pass a joint resolution to deny MFN to China, it would have to do so within 60 calendar days of July 3, in other words, by September 1, 1996.

If a joint resolution were to be passed, the President could veto the measure. The bill would then return to Congress, which could override the veto by the traditional two-thirds majority. An additional 15 legislative days are allotted for consideration of a veto override.

If a joint resolution is passed and the veto is overridden, MFN trade status for China would be withdrawn, commencing 60 days after the disapproval resolution is enacted into law. Apart from the joint resolution of disapproval, the Congress may at any time pass free-standing legislation withdrawing MFN or conditioning future extension. House Ways & Means and Senate Finance are the key congressional committees responsible for considering MFN-related legislation and resolutions.

♦ **What would withdrawing MFN mean?** US duties on goods imported from China would rise to the rates established in the 1930s under the highly protectionist Smoot-Hawley Tariff Law. The tariff for Chinese-made products would leap from an average rate of 5% to an average rate of nearly 50% (tariff rates for certain items would soar to more than 100%). Leading US imports from China such as footwear, toys, and apparel would become dramatically more expensive for American consumers. US importers and retailers would be forced to source the same products from other, more expensive manufacturers abroad.

In addition, since MFN is extended on a reciprocal basis, China would withdraw MFN treatment for US exports, blocking access to one of the United States' fastest-growing export markets and putting over \$25 billion in committed US investment at risk. In 1995, US merchandise exports to China totaled nearly \$12 billion (up 27%), and another \$5 billion worth of US goods sold to Hong Kong were re-exported to China. These exports support more than 200,000 high-skill/high-wage American jobs. Leading US exports to China include aircraft, power generating equipment, telecommunications equipment, computers, grain, cotton, and fertilizer.

MFN is the cornerstone of US-China commercial relations. Withdrawing MFN from China would effectively suspend the commercial relationship with the United States' fifth largest trading partner, and one of our fastest-growing export markets.

Founded in 1973, the US-China Business Council is the principal organization of American corporations engaged in trade and investment with the People's Republic of China. Its membership encompasses approximately 300 businesses with facilities throughout the United States. The Council is headquartered in Washington, DC, and maintains offices in Beijing and Hong Kong.

Top Twenty-Five US Imports From China in 1995
(US\$ millions)

HTS#	Item	1995 Import Value	MFN Tariff Rate	Non-MFN Tariff Rate
95039000	Other toys, reduced-size models and similar recreational models	1,228.02	Free	70%
64029918	Nonwelt footwear with outer soles of rubber, plastics	1,184.14	6%	35%
64039990	Nonwelt footwear with outer soles of rubber, plastics	1,119.25	10%	20%
95021000	Dolls, representing only human beings and parts and accessories thereof	794.83	Free	70%
95034100	Stuffed toys representing animals or non-human creatures and parts	736.77	Free	70%
64039960	Nonwelt footwear with outer soles of rubber, plastics	713.66	8.5%	20%
42031040	Articles of apparel and clothing accessories, of leather or composition leather	603.13	6%	35%
85252030	Cordless handset telephones	535.82	4.8%	35%
84733010	Parts and accessories of machines under heading 8471	476.04	Free	35%
67029035	Artificial flowers, foliage, and fruit and parts thereof	466.84	9%	71.5%
61109090	Sweaters, pullovers, sweatshirts, waistcoats (vests)	463.68	6%	60%
64039160	Nonwelt footwear with outer soles of rubber, plastics	413.59	8.5%	20%
64029140	Footwear not elsewhere indicated, covering the ankle	400.89	6%	35%
39269098	Articles of plastic not elsewhere indicated	392.81	5.3%	80%
85271111	Radio-tape player combinations, non-recording	382.51	2.2%	35%
95034900	Toys representing animals or non-human creatures	379.56	Free	70%
64039190	Nonwelt footwear with outer soles of rubber, plastics	369.89	10%	20%
94053000	Lighting sets used for Christmas trees	360.27	8%	50%
95037000	Other toys put up in sets or outfits	348.74	Free	70%
62061000	Silk womens' or girls' blouses, shirts or shirt-blouses	348.16	7.4%	65%
84733050	Other parts and accessories of machines under heading 8471	338.55	Free	35%
95038000	Other toys or models incorporating a motor	323.43	Free	70%
84145100	Table, floor, wall, window, ceiling or roof fans	322.20	4.7%	35%
85199900	Sound reproducing apparatus not elsewhere specified	318.05	2.3%	35%
27090020	Petroleum oils and oils from bituminous minerals	317.77	10.5cts/bbl	21cts/bbl
Total Value		13,338.60		
Average Tariff Rate (Weighted)			4.3%	45.9%
Total US Imports from China in 1995		45,555.43		
Total Value as Percentage of Total Imports		29.28%		



The United States-China Business Council

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What if MFN Were Revoked?

June 1996

Sometime before Labor Day, and probably before the Fourth of July, Congress will vote on a Resolution of Disapproval to overturn President Clinton's decision to renew normal tariff treatment (commonly called Most Favored Nation, or "MFN" status) for China. Debate on the resolution will be heated; virtually every area of disagreement in U.S.-China relations will be raised; and Chinese policies and practices will be denounced by advocates of MFN revocation.

But what would MFN removal accomplish and what would it fail to achieve? If MFN were revoked, we would see:

1. A sharp cut in trade -- Commerce with our 5th largest trading partner (nearly \$60 billion in 1995) would slow to a trickle because it would no longer be economical for the two sides to trade with each other. The price of US imports from China would rise as the average tariff rate on Chinese products would climb from 5% to nearly 50%, shifting sourcing to more expensive producers in other countries. These higher prices would cost American consumers \$29 billion per year, or an average of \$302 per American household.

2. Swift retaliation -- China would revoke MFN treatment for US goods, reducing US exports to China, and threatening more than 200,000 American jobs. China would buy from the United States only those goods that are absolute necessities and which are unavailable from any other source. We would thus lose one of our fastest growing export markets -- US exports to the PRC soared 27% in 1995. More importantly, the loss of MFN would jeopardize American companies' competitive position in what is clearly going to be the most important emerging market for decades to come.

3. Deterioration of the overall US balance of trade by about \$20 billion -- While current US exports to China of \$12+ billion per year would drop almost to zero, and opportunities for rapid expansion of our exports would evaporate; our importers would turn to other low-cost producers abroad for the shoes, toys, and cheaper textiles and apparel we presently buy from China.

4. Threaten US investment -- The loss of MFN would destroy the economic foundation for bilateral ties. The \$28 billion US firms have committed and the \$10 billion actually invested in China would be put at risk. Many of these US ventures are dependent on sourcing US-made inputs, which would carry prohibitively high tariffs (if MFN were revoked). All would be susceptible to discriminatory treatment from Chinese officials and citizens, if the United States were to withdraw MFN.

5. Worsening relations – US-China relations would suffer a major setback as a result of our virtual declaration of economic war on China. China could exercise its veto authority on the UN Security Council to thwart US-sponsored initiatives such as the denuclearization of the Korean Peninsula and peace-keeping in Bosnia. Cooperation on proliferation issues, environmental programs, and other issues of global concern likely would falter.

6. Regional instability – Loss of MFN for China would be harmful to both Hong Kong and Taiwan. The Hong Kong economic growth rate would be cut in half, unemployment would double, and confidence in the territory's future, at this critical time in its transition to Chinese sovereignty, would be shattered. Taiwan's economic and security interests likewise would be jeopardized. Taiwan is the second leading source of foreign investment in China. The bulk of Taiwan's investment is in export-processing industries that sell to the United States. In fact, all of China's regional neighbors benefit greatly by China's continued economic growth, reform, and integration into the regional and global economies.

7. Suspicion and distrust of the United States – Above all, MFN withdrawal would provide a powerful political weapon for hard liners in Beijing who remain suspicious of China's market reforms and its integration in the global economic system. MFN withdrawal might spur them to curtail or slow the pace of reform. MFN withdrawal would confirm their fear that economic integration is a threat to PRC sovereignty. The United States, political dissidents, and reform-minded officials in China would be blamed by the political leadership in Beijing for the economic hardships which undoubtedly would result. Popular sentiment in China would turn against us.

What would MFN revocation **not** achieve?

There would be no resolution of **any** outstanding US-China disputes in trade, human rights, security affairs, or any other field.

Serious problems remain in the US-China relationship. Each should be addressed in an appropriate and effective manner. Lumping all our complaints into one basket – MFN – and then tossing it away is no way to resolve our differences. Killing US-China trade might make some Americans feel good for a little while, but as a means of effectively dealing with US-China differences, such a move amounts to no more than bad politics and terrible economics.

Chairman CRANE. Thank you, Mr. Kapp.

Chairman CRANE. Let me pose a question to any or all of you. I have been to Shanghai, and I was overwhelmed with the economic progress and activity that was so highly visible during that visit, which was about 3 years ago; it was stunning. And it appeared to touch the lives of many. I left our group and strolled around local neighborhoods with my camera, taking pictures, and there were cheerful children playing in neighborhoods, neighborhoods well-kept, well-dressed people.

What percentage of the total Chinese population has thus far been absorbed in those areas where this kind of economic development has occurred so far? Do any of you have any idea?

Mr. KAPP. Well, Congressman, as a person who works on China and little else, maybe I can at least start off the response to that.

China's economic development is very rapid, but uneven. The cities and the coastal areas of China, such as Shanghai where you were visiting, have experienced the most rapid modernizing development and the most striking increase in prosperity since reforms began in the late seventies, and that is in very significant measure because they are the closest to and the most able to deal with the outside world and foreign business opportunity.

In the interior, the record is more mixed, and one of the things of great concern to the Chinese leadership today is that there appears to be a widening gap between the rate of improvement of economic condition in the interior and that on the coast—something that the regime is addressing itself consciously in the current, what is called "the Ninth 5-year Plan."

Having said that, if one does visit at least the cities of the interior, one finds somewhat in miniature and in a more modest degree many of the same changes that struck you so forcefully in Shanghai—massive amounts of construction in progress infrastructural improvements, the introduction of modern public works for the first time, like sewerage and telecommunications and so forth.

In the countryside, again, there are still 100 million people or so whom the Chinese themselves recognize to be living in conditions of dire poverty, but the number is down by a couple of hundred million in the space of 10 years, and the Chinese have, legitimately, claimed some real success in bringing so many people out of dire poverty in a short period of time.

Chairman CRANE. Does anyone else have an observation on that point?

Mr. YOUNTS. Just a comment. I would echo what Bob has said. In my 5 years of going to China, I have seen remarkable changes in the cities, including in the far north and the west; the progress in those areas is much less than in the coastal communities, but progress is nonetheless occurring at a very rapid rate.

Mr. COHEN. I would just simply add to those comments that the types of changes that you observed and others are commenting on are the very kinds of changes that all Americans want to see in China. We believe that they lead to increased choices for individual Chinese about where to live, and where to work. It means increased personal responsibility and increased personal freedom, and from that perspective, we see it as very positive.

Chairman CRANE. I was told that on almost a daily basis, there are impoverished people from inland China migrating to the cities which are enjoying tremendous economic growth and being absorbed within a relatively short period of time. I do not know what the percentage of growth is in those dynamic economic southern provinces, but at least it is a very positive indication.

Let me ask another question, and this has to do really with Motorola's involvement in some projects over there, one of which is the schools in the remote rural areas. How many U.S. corporations like Motorola are involved in developing these—these are grammar schools, are they not?

Mr. YOUNTS. Yes, Mr. Chairman, they are grammar schools. We are currently focusing our efforts on the elementary schools, grades 1 through 8 in the rural or depressed areas of China. To date, Motorola is one of the largest supporters of this program, having committed almost \$1 million over the last 3 years to these programs. We now sponsor 17 schools in depressed areas. We have been talking to other corporations with a presence in China to support this organization. We have recently done a major audit on this program to make sure of where the funds are going, and we visit these schools each year. We think it is an excellent opportunity to improve the basic education of children in areas where they would not otherwise get education.

We believe that in the last 24 months, we have brought 2,800 children, who had dropped out, back to school. So, we believe we are making a difference. And we are approaching other companies, not only from the United States, but other countries as well, to participate in this program. We think that over the long term, it will make a significant difference.

Chairman CRANE. I was told by some American business representatives from China who were over here in the United States last year that under Chinese law, if you do business over there, you have to maintain clean and proper working conditions, you have to pay for overtime and provide health care for your employees. Is that a guideline that applies also to domestic Chinese businesses the same way it does to foreign businesses?

Mr. YOUNTS. I'm not sure.

Mr. KAPP. I would say yes, but with some differences stemming from the nature of foreign invested and domestic businesses. State-owned enterprises traditionally, as was said by an earlier witness, provided to the worker cradle-to-grave social services—leisure activities, old age care, medical services—nursery care for the kids; every aspect of that was provided as a function of the fact that one held a job in a state-owned enterprise.

What the Chinese are going through now—and if you think we have Social Security problems, you really ought to invite some of your colleagues from the Chinese legislative bodies over to talk about this—what they are going through now is an attempt to create where none has existed before a network of institutions that we would call a safety net of funded retirement and pension and health insurance systems to take the place of the state-subsidized program that everybody more or less engaged almost for free. They have concluded, as so many other countries have concluded, that China simply cannot afford to pay for it all out of state funds any-

more. The massive subsidies to the state sector are what are driving the Chinese budget into the hole so badly.

So, I include in my recommendations that Congress move more decisively to engage with China itself and to look toward constructive ways of developing cooperation and further interchange with colleagues in the PRC on subjects such as this. No area could be more relevant for the sharing of ideas and the discussing of mutual problems and differences than the area of the building of a social safety net in China for hundreds upon hundreds of millions of people who have not had it before.

Chairman CRANE. Mr. Cohen.

Mr. COHEN. Mr. Chairman, for many of our companies in the Emergency Committee for American Trade, I would note that the standards for their facilities in China, are higher than those required under Chinese law and regulation. Frequently, when they put up a facility in China, they are following the same standards that they would use if the plan were in Illinois or another State in the United States when it comes to safety or when it comes to the way things are laid out. And as a result, they have a record that many of them are very proud of indeed.

Chairman CRANE. Well, the thought that crossed my mind was if there is any differential—that you have a couple of Chinese buddies who are having dinner tonight at the end of the day's work, and one is working in a Chinese facility and the other is working for, say, Motorola, and the one complaining about his work environment ought to be acquainted with Motorola's opportunities for him.

Something else that fascinated me was that book that you folks have published—I guess it is not for circulation back here—talking about Chinese employees at Motorola owning their own apartments after 5 years. How is that program structured?

Mr. YOUNTS. We currently have a program that we call EHOP, the Employee Homeowner Opportunity Program. We have set up a program whereby, after 10 years, the employee will own his home. After 5 years, they begin gaining the equity, and after 10 years, they own their own home. It is a shared program whereby the employee puts up so much of the money, we put up so much of the money. We are financing the building of the homes.

The Chinese government is watching the program very closely. One of the biggest problems they have socially with the shift away from the Iron Rice Bowl, is to provide housing for all of their people. This program is a way out of that situation, so it is being monitored very heavily by the Chinese Government.

We will have our first 600 people in apartments by the end of this year. All employees, regardless of rank at the company, will be eligible for the program. Right now, we are backlogged about a year and a half in terms of construction with signups already.

So, we believe that this is an excellent program not only from a social standpoint, but obviously, it makes good business sense. We are providing a lot of training to our employees, and we are interested in retaining those employees, so it is a good business decision as well as a good social decision.

Chairman CRANE. Well, I want to comment—yes, Mr. Snyder.

Mr. SNYDER. I just want to add, Mr. Chairman, that even though insurance companies have largely been closed out of the market in

China so far, they have conducted a number of specialized training opportunities for Chinese insurance officials, and we have done special studies on providing adequate coverage for some of China's fundamental infrastructure. I think that those who believe that trade is good in and of itself and then, even better, because it may lead to the accomplishment of other larger objectives, need to continue to make the case in this country and also in China.

What we have found from the insurance market in the United States is, in fact, that we benefit significantly by the presence of foreign insurance companies who add financial capacity. That, in turn, provides not only insurance protection, which means you can buy more of it, and it is more competitive, but the money that is collected is then invested back in the United States in terms of the building of our own infrastructure. The huge percentage of insurance company investments supports the infrastructure in the United States through the purchase of government bonds and other kinds of public works financing.

This same sort of thing could operate in China, but it is something that needs constant reinforcement. So it is within not only our interest, but theirs, to open their markets.

Chairman CRANE. I want to commend Motorola, too, on initiating the environmental pursuits that you have done to get the attention not just of the government officials, but trying to attract other businesses into participation in that area.

One of the points that I have made many times in regard to this kind of activity by an American presence is that there is the quotation from Ben Franklin, "A good example is the best sermon." I think that this presence of American business on the mainland has the potential of the fulfillment of things that, at least heretofore, we have found no other vehicle that works like just the advancement of our fundamental business principles, and there are positive spillover effects. So, I commend all of you for what you are doing.

Mr. Rangel.

Mr. RANGEL. Thank you, Mr. Chairman.

To be honest, I am more concerned about jobs in the United States than I am in China, but I have reached the point of believing that these Republicans are not going to help me much in creating any Federal programs to do it, and we are not going to increase taxes. So, I am convinced that the only way we can get more jobs in the United States is by supporting free trade and expanding our economic base.

I would hope that you would exclude me from that group of people who believe that through sanctions, we can have other countries behave as we are, as a democracy. It has been a problem in the United States, but I have not been a part of that problem.

Having said that, I was very interested in this "saving face" example that you have given. Coming from a community where we did not have the luxury of the sophistication of saving face, it is he who is in the driver's seat. And I gather that, basically, your testimony is that the Chinese are stealing American property rights in a variety of areas and they feel awkward in changing the nature of this theft; but notwithstanding that, since we cannot hurt

them without hurting ourselves, we might as well just continue to do what we are doing.

I can only accept it because I have not found better tools to deal with China. I can understand why we cannot expect them to draft their own laws based on the U.S. Constitution. But, it just seems to me that if you have a trading partner which is not being fair with you, which ships you its goods but denies you the opportunity to ship into their community in a competitive way, which really refuses to hold discussions, which threatens American industry, and which holds us in utter contempt for bringing it up, something is wrong.

I thought—and I hope I am wrong—that you were finding some type of a reason why we had to understand this type of thing.

Mr. KAPP. No. I am glad you came back to this, Congressman, so that we can pick up on some of your thoughts from earlier today.

Ambassador Barshefsky and her deputy Assistant U.S. Trade Representative Lee Sands are not out there, holding the Chinese government's feet to the fire with a June 17 deadline, and \$2 billion in sanctions waiting to go into effect within 6 days, because the United States business community or anybody else thinks they do things differently in China than we do, and what is a little theft of intellectual property?

Mr. RANGEL. I mean, Mr. Kapp, I cannot find a better way than the administration has found at this point to show our concern. I just thought that those of you who deal with the Chinese might be able to better explain to me how people can do these things, without fear of the fact that we are going to retaliate.

I mean, we are trading partners, it is of mutual benefit, and here, we find someone doing this, and now we have to threaten them, and then they threaten us. I just think that this type of thing violates every principle this country stands for, notwithstanding whether they become satellites of the United States of America or not. They can stay whatever they are. But I cannot go home to those firms that find that their biggest property value has been their research and that this can be distributed and redistributed while they argue—what is their argument, Mr. Kapp? What are they saying?

Mr. KAPP. Mr. Rangel, if I can be absolutely certain that it is absolutely clear on the record that I am about to try to convey to you the views of the Chinese, and that they are not necessarily my views or those of my council, I would be happy to try.

Mr. RANGEL. Well—

Mr. KAPP. The Chinese say; "We accept the global view that modern international trade and commerce require the protection of intellectual property. Ten or 15 years ago, we had never heard of it. In a socialist society where everything is owned by the public, there was no such thing, but today we accept it. We are joining the world. We want into the WTO. We want to exchange knowledge and techniques and modern production methods with the world's advanced economies. We accept it. We have created a patent law, we have created a copyright law, we have a crackerjack Patent Administration in Beijing. But please understand that we have 3 million square miles, we have 1.3 billion people—and that the act of

enforcing what we agree are established international norms of behavior in this regard is a daunting task in a country like ours.

When we signed that IPR agreement last year, the Chinese agreed at our insistence to create a new bureaucracy of discovery and enforcement on the intellectual property side of 900,000 people, according to my back-of-the-envelope arithmetic last year.

The Chinese are saying to the rest of the world; "We cannot do it all over night."

For our part, we are saying; "Sorry, that is not good enough. We have an agreement; you signed it, you made commitments, and we have domestic law to back it up. If you do not live up to the agreement, the sanctions will go into effect, and you are going to pay heavily for it."

Mr. RANGEL. Am I mistaken in my belief that these reproduction factories have been discovered, identified, and revisited, and that the Chinese—I read that four of the disc reproduction places were closed—but I thought they had known that; American businesspeople have taken them on tour as to where these things are. So, you are saying they do not have the ability to enforce, and that may be so, as it relates to all of China, but I thought it was a lack of will to enforce where they knew where the counterfeiting factories were.

Mr. KAPP. Again, Congressman, I was trying to convey what the Chinese have said to us, not the views of myself or my council. The U.S. business community stands with——

Mr. RANGEL. You are pretty good at expressing those views.

Mr. KAPP. Well, the business community is very strong, absolutely unbending, on the fact that respect for intellectual property and protection of intellectual property rights are fundamental tenets of modern global business. If you are going to play in the global economy, no matter what country, you have got to stick to the rules, and we have supported the administration's positions in that regard.

Mr. RANGEL. OK. I would like to talk or meet with your group to see whether they can come in and fine-tune some way to assist these people——

Mr. KAPP. But remember that this is an MFN hearing, and the thing that we wanted to try to bring home is that the discussion of this issue, on which we do have a big problem, and concerning which we have laws and have threatened sanctions, is an entirely separate matter from the question before this Subcommittee and the Congress these weeks, i.e., whether we throw the entire trade relationship with China down the tubes by canceling normal, non-discriminatory most-favored-nation trade with them. That, we feel is a separate matter.

Mr. RANGEL. You keep saying that it is separate. We kind of thought most-favored-nation was something special. Certainly, I did not hear all of these voices about bad policy with respect to Cuba—I know all of you find it consistent with your present thinking that sanctions generally do not work—but I am not talking about sanctions, and I am not talking about not treating them as ordinary trading partners. I am just saying that your depiction of how the Chinese would think is what annoys me. But, I am going to have to find some way to meet these people halfway, internation-

ally. The Chinese use face-saving and not understanding and their status as a developing nation as sophisticated excuses. On the other hand, we just do not give the Cubans this much opportunity to be that sophisticated. Thank God we have people like Mr. Crane to bring some balance to our policy as relates to places like China.

But we expect some help from those companies that you represent that are doing extremely well in China as opposed to those U.S. companies which are catching hell doing business in China. We need help from all who support your position that we should not take an extreme posture and cutoff trade with China. But, they need a lot more help from our American friends, as well as our European trading partners.

Thank you, Mr. Kapp.

Mr. KAPP. Thank you, Mr. Rangel; sorry to have taken so much of the other panelists' time.

Mr. YOUNTS. At the risk of beating a dead horse, I would echo Bob's comment in the sense that, in the last 10 years, the concept of intellectual property has first been introduced to China, so it takes a little bit of time.

I can only relate to you an incident of a couple of years ago, talking with the Academy of Science folks there, when we were talking about intellectual property. After a 2-hour discussion, they were finally believing the concept—because we talked about their technology and the importance of protecting their technology—and in that context, it really came home to the Academy of Science.

I think it is going to take a while to get this level of understanding to the provinces, so there will not be the requirement of a massive enforcement effort, which is itself very hard to do.

We currently have two IPR lawyers in Beijing, working with the people in the enforcement agencies, not only in Beijing, but in the provinces, and we have been extremely encouraged—as a matter of fact, more encouraged than we have seen in other Asian countries—with the support we have gotten to protect our trademark and intellectual property, copying of Motorola pagers and so forth. But, it is a full-time job, and we spent a lot of time educating the provincial governments as well as the Beijing government on the importance of the issue.

So, I think it is a little more than just holding the hammer over their head; I think we have to help them understand and help them get the necessary regulatory processes in place to control this activity.

They have now bought into the concept in Beijing, and I think they are taking it seriously.

Mr. RANGEL. My only question, Mr. Younts, is would you be that sensitive and understanding if Motorola products were being reproduced as fast as software, the video movies and the music disc recordings—and knowing that you would still want to hang in there and change things around—I just do not find that sensitivity with the firms that are being victimized.

Mr. YOUNTS. We do have a lot of copycat pagers and cellular telephones, batteries and battery chargers, particularly in Guangdong. What we have discovered is that most of these companies are financed by Hong Kong and Taiwanese companies, not the Chinese companies. But we have the same problem. I would suggest—and

maybe we can talk to some of your companies in terms of helping to solve the problem—that we go there and help them address the issue as opposed to just holding a hammer over their head.

Mr. RANGEL. It is my further understanding that the reproductions are of equal quality to the American products. Did you find that with your Motorola copycats?

Mr. YOUNTS. No, sir, and unfortunately, that is a problem. It is not of the same quality, and some of the products, particularly the batteries and so forth, are dangerous products if not done correctly. So, we are concerned about having bad products out there—

Mr. RANGEL. But, your problems would not be as great—I want someone to feel the pain of the other industries. I want to see all of our American businesses go there and expand there and throughout the world.

Mr. COHEN. Mr. Rangel, if I might just add that ECAT, the Emergency Committee for American Trade, represents a broad cross-section of the business community. It includes companies that produce software, as well as CDs. It supports the efforts of the government to fight for protection of intellectual property rights.

We do not in any way say to our government that these are not things that should be defended. These are rights that are very essential to the commercial interests of the United States. All of our ECAT companies are not equally affected, but we are not in any way withdrawing from making that very strong point; it is in our collective interest, and as a business community and as an ECAT organization, we are very firm on that point.

Mr. RANGEL. Well, I missed your testimony, but was that included, Mr. Cohen?

Mr. COHEN. It does not. We have put out a statement that is on the public record, and I will get a copy of that to you.

[The following was subsequently received:]

Emergency Committee for American Trade 1211 Connecticut Ave. N.W. Washington, D.C. 20036 (202) 659-5147

NEWS RELEASE

For Release:
Wednesday, May 15, 1996

Contact: Calman J. Cohen
202/659-5147

WASHINGTON, D.C., May 15, 1996

STATEMENT OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE

Duane L. Burnham, Chairman and Chief Executive Officer of Abbott Laboratories and Chairman of the Emergency Committee for American Trade, released the following statement today:

"Member companies of the Emergency Committee for American Trade are engaged in numerous trade ventures with enterprises in China and strongly support expansion of U.S.-China trade ties, including the extension of China's most-favored-nation trading status. Strong intellectual property protection is vital to the continuing success of the commercial interests of ECAT companies throughout the world.

We hope that a U.S.-China accord shortly can be reached that settles the outstanding intellectual property rights issues to the mutual advantage of the United States and China."

Mr. RANGEL. Well, I would encourage all of you to get those statements up front in your initial testimony, because we will end up at the same place, but to the degree of all of us understanding that, we are American, and what is happening to these firms could happen to your firms, and you will be looking all around for help.

So I would appreciate it, Mr. Cohen, if you could tell the industry that our back is against the wall, and we cannot find any better tool to work with than what has been developed by the administration, and that has been rejected. But still, if we can all read from the same page as American firms, because they lose jobs, I lose jobs.

Thank you, Mr. Chairman.

Mr. SNYDER. Congressman Rangel, if I might just add very quickly, that sort of a flexible approach—no one answer necessarily deals with all the questions—is very, very important.

We felt that granting most-favored-nation status, or continuing it, made sense in the long term. It is good for trade, and it gives us some credibility and an entre into China, both politically and economically.

On the other hand, we feel that the World Trade Organization and other negotiations provide the circumstances under which important issues can be presented. We should insist that China plays by the same rules all other great nations do, including access, abiding by the rule of law, and other things like that.

The hope is that if we have not unduly made negative points on issues that, frankly, can hurt us as much as them, we can build some credibility with them in terms of our relationships and the molding of their modernized society. Then we have better circumstances under which these other trade, political, and national security points can be more effectively delivered and, hopefully, abided by.

Mr. RANGEL. I assume that all of you support the President's sanctions?

Mr. SNYDER. On IPR, yes indeed.

Mr. KAPP. On intellectual property, or on renewal of MFN.

Mr. RANGEL. The present sanctions that go into effect and—

Mr. KAPP. If a satisfactory agreement is not reached, of course, we understand that that is what lies at the end of the road. The purpose of the threat, of course, is to reach agreement, and any time sanctions are levied, there is a price to pay by the sanctioning nation as well as by the sanctioned nation. We wish Ambassador Barshefsky and Assistant USTR Lee Sands the greatest success in getting to a successful conclusion to those negotiations before sanctions are necessitated.

Mr. RANGEL. OK. I will just conclude by asking all of you who do business with the Chinese to please share with them how important it is with Americans and Members of Congress in terms of trying to reach some agreement on these issues; work with them and—

Mr. COHEN. We have not minced our words. We have stated to those with whom we meet from China that these are important negotiations, and that China must find a way to follow through on what they have committed. We are doing just that, Mr. Rangel.

Mr. RANGEL. I thank all of you.

Thank you, Mr. Chairman.

Chairman CRANE. I want to thank all of you for your testimony, and keep up the good work. We look forward to a successful continuation of MFN, but I would hope that we might take a long, hard look at changing that designation for one thing and, second, making it permanent.

Thank you all for your testimony.

Chairman CRANE. I would like now to invite Mark Anderson, Mike Jendrzeczyk and Lodi Gyari to come forward. We will proceed in the order on the printed agenda, with Mr. Anderson first.

Mr. Anderson.

**STATEMENT OF MARK A. ANDERSON, DIRECTOR, TASK FORCE
ON TRADE, AMERICAN FEDERATION OF LABOR AND
CONGRESS OF INDUSTRIAL ORGANIZATIONS**

Mr. ANDERSON. Thank you, Mr. Chairman.

Mr. Chairman, Mr. Rangel, the AFL-CIO appreciates your kind invitation to present its views on U.S. trade policy toward China and its opposition to the granting of most-favored-nation trading status. This opposition, expressed for years to both Republican and Democrat administrations, is based on China's continued denial of basic worker and human rights and a nonreciprocal, unfair trading relationship that is harmful to U.S. workers.

Despite 15 years of accommodation, Mr. Chairman, exemplified by the uninterrupted granting of MFN status, there is nothing today that suggests China is willing to act in accordance with international trading rules or basic democratic principles.

Despite provisions of Jackson-Vanik that require an agreement that provides for reciprocal, nondiscriminatory treatment, access to the Chinese market for U.S. goods and services remains severely and unfairly restricted, while the U.S. market is open to an ever-growing volume of Chinese exports. Investment in China is conditioned on harmful export and technology transfer requirements, intellectual property rights continue to be violated, textile agreements are not honored. These practices have resulted in a massive shift in the balance of trade, with our country now suffering under trade deficits that reached \$34 billion last year.

I would point out, Mr. Chairman, somewhat in contradiction to earlier testimony today, that the composition of United States-China trade is, if anything, more troubling than the overall deficit. Of the 20 American industries running the biggest trade surpluses with China, only one—aerospace—produced high-value, complex products that generate the best-paying jobs. The rest are raw materials and lower value-added products, such as pulpwood and hides. The largest U.S. deficit, however, is for high value-added electrical machinery.

This shift in trade and the unfair Chinese practices that helped to bring it about has real consequences for U.S. workers and domestic production. In 1994, for example, China violated a bilateral agreement by requiring the domestic production of automobiles and parts as substitutes for imports. To sell on the Chinese markets, foreign companies have to invest and produce locally. U.S. exports are restricted.

This policy has resulted in a significant worsening in the U.S. trade balance with China, with U.S. exports to China falling and U.S. imports rising. In 1993, just before the policy went into effect, the United States had a surplus in auto trade with China of some \$521 million. In 1995, the United States ran a deficit of \$454 million—a reversal of \$1 billion in just 2 years. We are of the view that this deficit could mushroom in a short time, as growing investment in China competes with U.S. production in both the domestic and export markets.

While the public debate on MFN tends to focus on imports and exports, much of the passion in this discussion is a result of corporate decisions to use China as a low-cost production location. They fear that real action on the part of the U.S. Government to combat China's unfair practices might jeopardize existing or planned investment, which some estimate to be as high as \$25 billion.

We should be clear. U.S. multinational companies, the major force behind MFN extension, have adapted to Chinese investment requirements, transferring not only capital but valuable technology and jobs. Using low-cost, depressed Chinese labor, they are establishing or contracting with manufacturing export centers that compete directly with U.S. production. Their support for MFN extension is principally about protecting those investments and not about expanding U.S. exports and employment or promoting democracy in China.

Indeed, we have reached the point, Mr. Chairman, where the most ardent defenders of Chinese communism are U.S. capitalists.

Finally, Mr. Chairman, no progress has been made in the area of human rights. Chinese prisons are filled with political and religious dissidents, independent unions are banned, and China continues to produce and export goods made in their forced labor system, the Laogai, despite a bilateral agreement that was negotiated to end that practice.

The United States may not be able to change Chinese behavior, but it certainly does not have to support it.

Mr. Chairman, for these reasons, the AFL-CIO urges your support for the disapproval resolution and the withdrawal of MFN status for China.

Thank you.

[The prepared statement follows:]

Statement of Mark A. Anderson, Director, Task Force on Trade
 American Federation of Labor and Congress of Industrial Organizations
 Before the Subcommittee on Trade
 Committee on Ways and Means
 United States House of Representatives
 on Most Favored Nation Status for the Peoples Republic of China
 June 11, 1996

Mr. Chairman, members of the committee, the AFL-CIO appreciates this opportunity to present its views on U.S. trade policy toward China and its opposition to the granting of most favored nation (MFN) trading status. This opposition, expressed for years to both Republican and Democratic administrations, is based on the continued denial of basic worker and human rights in China, and the nonreciprocal, unfair nature of the trading relationship that exists between the two countries.

While the congressional debate will correctly focus on the specifics of the U.S.-China relationship, it will also, through that examination, address a series of more fundamental questions: What are the conditions under which the United States trades with the world? Are there any standards or rules that should be observed? Are certain narrow commercial interests identical to the interests of the nation as a whole? The relationship with China puts those questions and others in sharp relief, and how they are answered will tell us a lot about this country's adherence to basic principles and whether or not the growing internationalization of the economy can be structured to benefit and not harm working Americans.

A continuation of MFN status for China would represent a regrettable misunderstanding of recent history, and will further solidify a trading relationship that is harmful to U.S. workers. Despite 15 years of accommodation, exemplified by the uninterrupted granting of MFN status, there is nothing today that suggests that China is willing to act in accordance with international trading norms or basic democratic principles.

In this regard, it is difficult to understand why companies operated by the People's Liberation Army (PLA) are allowed to continue to do business in the United States. The PLA General Logistics Department has a company in southern California, the PLA General Staff Department has its headquarters in Atlanta, and the People's Armed Police have a company in Michigan. NORINCO, officials of which were recently caught trying to illegally import into the U.S. 2,000 AK-47's, has some eight subsidiaries in southern California and New Jersey. It appears that we now have the perverse situation of American consumers unwittingly subsidizing the Chinese army. This is simply not right.

Legal requirements allow for MFN treatment only with the existence of a trade agreement that provides reciprocal, non-discriminatory treatment. Access to the Chinese market for U.S. goods and services is severely and unfairly restricted, while the U.S. market remains open to an ever-growing volume of Chinese exports. Investment in China is conditioned on harmful export and technology transfer requirements. Intellectual property rights continue to be violated. Textile agreements are not honored as the U.S. Customs Service estimates that \$4 billion in illegal textile transshipments originate in China. These practices, together with the unwillingness of the U.S. to address them, have resulted in a massive shift in the balance of trade, with the U.S. now suffering under trade deficits that reached \$34 billion last year. U.S. jobs have been lost, and downward pressure on wages has intensified.

U.S. multinational companies, the major force behind MFN extension, have adapted to Chinese government policies and invested billions of dollars in China, transferring not only capital, but valuable technology and jobs. Using low cost, oppressed Chinese labor, they are establishing or contracting with manufacturing export centers that compete directly with U.S. production. Their support for MFN extension is principally about protecting those investments, and not about expanding U.S. exports and employment or promoting democracy in China.

It is clear that no progress has been made in the area of human rights. Chinese prisons are filled with political and religious dissidents. Independent unions are banned, and China continues to produce and export goods made in their forced labor system. Indeed, despite the bilateral agreement which was negotiated to end that practice.

All the above suggests that a continuation of the policies in place for the last fifteen years would merely be a triumph of hope over experience. A new approach is needed to achieve a reciprocal, nondiscriminatory trading relationship and support those working toward the emergence of a free and democratic China. Seeking these goals is not only intrinsically correct, but also in the direct self-interest of

the U.S. Freedom, democracy and adherence to international standards are necessary attributes if China, the largest country in the world, is to join, in a positive way, the world community. We are under no illusions that this will occur quickly or easily, and certainly the primary force for change must originate in China itself. But experience also tells us that external pressure can play a significant role in accelerating the process of change.

Indeed, much of the current debate about China policy has a very familiar ring. Many who urge an extension of MFN for China sound remarkably similar to the advocates of "constructive engagement" for South Africa in the 1980's, or those who thought that the oppressive nature of governments in Eastern Europe was of no consequence, as long as they paid their bills. Those views were demonstrated to be wrong then and they are equally wrong now.

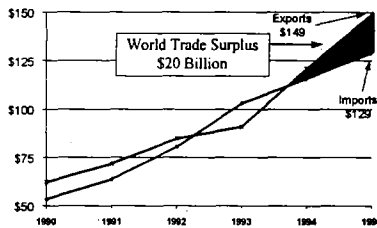
China's World Trade Position

In 1994, the World Bank described China's trade strategy as "mercantilist, motivated by achieving export growth for the sake of generating foreign exchange without sufficient regard to costs, and linked with attempts to contain import growth." In many respects this approach has been quite successful.

International trade now accounts for 40 percent of China's total economy, with hard currency reserves reaching \$73 billion. In recent years, Chinese exports have grown at three times the average world rate, making China one of the world's ten largest exporters. As a result of this strong export growth, together with restrictions on imports, China enjoyed an overall trade surplus of \$20 billion in 1995 (Figure 1), while the U.S. recorded an overall deficit of \$160 billion.

Figure 1

China's Trade With the World, 1990 to 1995
(Billions of Dollars)



Source: U.S. Department of Commerce

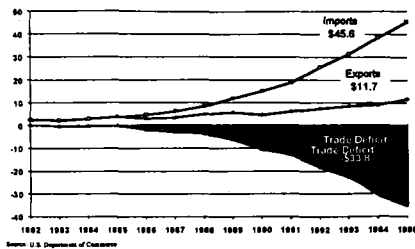
On a scale that the rest of the world is just beginning to comprehend, China is rapidly expanding its industrial capacity. Until now, growth has come mostly from producers that took advantage of the country's immense pool of oppressed workers, where wages average about \$100 per month. Increasingly though, these companies are moving to more advanced products. Manufactured goods, which account for 82 percent of Chinese exports, are no longer dominated by traditional labor-intensive products. For example, exports of electrical and machinery products exceeded textile exports for the first time in 1995, and are expected to total \$100 billion within four years. Exports of color TVs, auto parts, cellular phones, engines, power generators, computer equipment, and a host of other high-value-added goods will grow substantially.

U.S.-China Trade

Over the last dozen years, U.S. merchandise trade with China has deteriorated from rough balance to a deficit that reached \$33.8 billion in 1995 (Figure 2). While exports amounted to \$11.7 billion, imports reached \$45.6 billion and represented 31 percent of China's worldwide exports. In contrast, U.S. exports to China were only 2 percent of total U.S. exports. At \$11.7 billion in 1995, U.S. merchandise exports to China were lower than exports to countries like the Netherlands, Belgium, and Singapore and ranked thirteenth among countries that import from the U.S. However, the \$45.6 billion in imports from China ranked fourth among countries that send goods to the U.S.

Figure 1

U.S. Trade Deficit With China (Billions of Dollars)



The makeup of the \$33.8 billion merchandise trade deficit with China is also cause for concern. (Figure 3) Of the 20 American industries running the biggest trade surpluses with China in 1995, only one, aerospace, produced high-value, complex products that generate the best paying jobs. The rest are raw materials and lower value added products such as fertilizers, cereals, food residue and waste, ore slag and ash, and pulp wood—the kinds of goods that developing countries send to industrialized countries. The largest deficit however, is for electrical machinery, equipment and parts.

Trade Balance of Top 20 Articles of U.S.-China Trade, 1995

Figure 3

U.S. Surplus		U.S. Deficit	
Article of Trade	\$ (mil)	Article of Trade	\$ (mil)
Fertilizers	1,200	Electrical Machinery And Equipment And Parts	6,615
Aircraft, Spacecraft, And Parts	1,151	Toys, Games And Sports Equipment	6,151
Cereals	1,144	Footwear, Gaiters And Parts	5,814
Cotton, Including Yarns And Woven Fabrics	691	Articles Of Apparel And Clothing Accessories	3,272
Animal Or Vegetable Fats And Oils	393	Articles Of Leather, Saddlery And Harness	2,533
Pulp Of Wood Or Other Fibrous Cellulosic Material	183	Furniture, Bedding, Cushions Etc.; Lamps And Lights	1,919
Manmade Staple Fibers	153	Nuclear Reactors, Boilers, Machinery	1,433
Raw Hides And Skins (Other Than Furskins) And Leather	105	Articles Of Apparel And Clothing Accessories, Knit	1,371
Aluminum And Articles Thereof	92	Plastics And Articles Thereof	1,272
Copper And Articles Thereof	81	Optical, Photographic, Cinematographic, Measuring,	823
Miscellaneous Chemical Products	70	Prepared Feathers And Down And Articles	642
Meat And Edible Meat Offal	35	Made-Up Textile Articles, Needlecraft Sets	634
Residues And Waste From The Food Industries	10	Ceramic Products	532
Ores, Slag And Ash	8	Articles Of Iron Or Steel	448
Live Animals	8	Mineral Fuels, Mineral Oils And Products	413
Oil Seeds And Oleaginous Fruits	6	Tools, Implements, Cutlery, Spoons And Forks	348
Manmade Filaments, Including Yarns And Woven Fabric	5	Clocks And Watches And Parts	345
Tobacco And Manufactured Tobacco Substitutes	3	Miscellaneous Manufactured Articles	343
Nickel And Articles Thereof	3	Vehicles, Other Than Railway Or Tramway	330
Impregnated, Coated, Covered Or Laminated Textiles	2	Miscellaneous Articles Of Base Metal	311

Source: U.S. Department of Commerce

China's Trade Regime

The inequitable and discriminatory nature of Chinese trade and investment policies has been a major contributor to America's growing bilateral trade deficit. China has explicitly followed an export led growth strategy, implementing policies that have nothing in common with free trade or open markets. This is particularly true for so-called "pillar industries," industries that the Chinese government has targeted for development. For these industries, which include autos and trucks, aerospace, machinery, electronics, engineering, petro chemicals and building materials, China uses a combination of import protection, investment requirements, and export support.

Tariffs

China uses prohibitively high tariffs, in combination with import restrictions and foreign exchange controls to protect its domestic industry and restrict imports. Tariffs facing goods entering China in 1995 ranged as high as 150 percent, while the average nominal import tariff exceeded 35 percent. While some reductions have apparently taken place, tariff rates remain extremely high for sectors such as chemicals and transportation equipment in which China is seeking to build internationally competitive industries. Auto tariffs for example, are 100 percent.

The published tariff however, may not even apply as different ports of entry often charge different duty rates on the same products. Because there is flexibility at the local level in deciding whether to charge the official rate, actual customs duties are often the result of negotiation. This is also true of various forms of taxation. Allegations of corruption are numerous.

On the whole, tariff reductions have been the greatest on the sort of raw materials and high-technology items that China needs to import in order to sustain its economic growth. Least changed are the tariffs on consumer and manufactured goods which China prefers to make itself.

Non-Tariff Measures

These measures include import licenses, import quotas, discriminatory standards, lack of transparency, foreign exchange requirements, import substitution requirements, as well as the non-market operation of China's state-owned or directed enterprises.

The levels of imports permitted under these measures are the result of complex negotiations between the central government and Chinese ministries, state corporations and trading companies. Non-tariff barriers are administered by the State Economic and Trade Commission (SETC), the State Planning Commission (SPC), and the Ministry of Foreign Trade and Economic Cooperation (MOFTEC). Negotiations to end these practices have not been successful.

U.S. INVESTMENT IN CHINA

"...multinationals that have followed Beijing's rules may use their Chinese factories, rather than U.S. plants, to meet the huge demand for goods in the developing world."
(Business Week, March 4, 1996, p. 60)

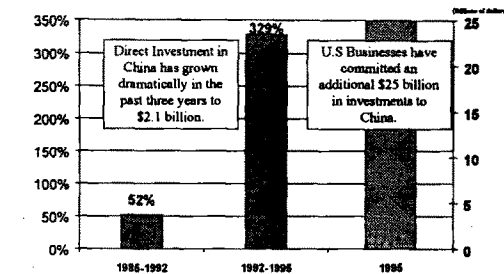
"We want them to bring their technology to the soil of the People's Republic of China."
Yuan Sotai, China's Ministry of Electronics Industry. (Wall Street Journal, December 7, 1995)

While the public debate on MFN tends to focus on imports and exports, much of the passion in this discussion is a result of corporate decisions to use China as a low-cost production location. They fear that real action on the part of the U.S. to combat China's unfair practices might jeopardize existing or planned investment. China has masterfully exploited this fear by conditioning access to the world's largest potential market on a whole series of investment performance requirements that include import substitution, export performance, trade balancing, technology transfer, local content and domestic sales restrictions.

U.S. investment in China has grown rapidly over the last three years and is valued at \$2.1 billion for 1995. This however, is just the beginning. Committed investment is reported to be an almost unbelievable \$25 billion. (Figure 4)

Figure 4

U.S. Direct Investment Position in China, 1985 to 1995



Source: U.S. Department of Commerce,
U.S.-China Business Council

Efforts on the part of the U.S. to negotiate the elimination of many of these investment requirements has been unsuccessful. When agreements have been reached, they are ignored by the Chinese government. For example, a Memorandum of Understanding on market access was reached in 1992, which committed China to a variety of actions, including pledging that it;

...will not condition the issuance of import licenses upon either the transfer of technology or meeting requirements related to investment in China...The Chinese government confirms that it has eliminated all import substitution regulations, guidance and policies and will not subject any products to any import substitution in the future.

Despite these commitments, USTR's 1995 National Trade Estimate Report on Foreign Trade Barriers reports that:

In 1994, China announced the first in a series of industrial policies that include clear import substitution requirements and in some other sectors, such as pharmaceuticals, China has also adopted import substitution requirements. China's auto policy, designed to build a modern automobile industry in China, explicitly calls for production of domestic automobiles and auto parts as substitutes for imports, and mandates strict local content requirements—forcing the use of domestic products, whether comparable or not in quality or price.

These policies and the U.S. acceptance of them have real consequences for U.S. workers and domestic production. Prior to the publication of its auto policy in 1994, China officially imported more than 300,000 vehicles. Today, imports have been reduced to tens of thousands. The U.S. trade balance with China has also suffered significantly with U.S. exports to China falling and U.S. imports rising. In 1993, just before the policy went into effect, the U.S. had a surplus in auto trade (vehicles and parts) with China of \$521 million. In 1995, the U.S. ran a deficit of \$454 million—a reversal of \$1 billion in just two years. With the massive amount of auto-related investment that is taking place in China, the deficit could mushroom in a short time.

China is following a very careful economic strategy that is based on a protected domestic market, foreign investment and exports, and U.S. companies are falling over each other in a rush to accommodate Chinese demands by investing in production facilities and transferring advanced technology. Make no mistake, their support for China and the continuation of MFN has nothing to do with fair trade, human rights, increased U.S. exports, domestic employment, corporate responsibility or U.S. national security, and everything to do with the profits they project through producing and selling in China.

It is this lure of profit that brings U.S. companies to join with Chinese businesses, state-owned enterprises and even the Chinese military in establishing new state-of-the-art production facilities in China. We have reached the point where the most ardent defenders of Chinese communism are U.S. capitalists.

U.S. Corporate Activity in China

The following is an illustrative list of the kind of U.S. economic activity and investment currently taking place in China. While U.S. exports are no doubt associated with much of these investments, it is clear that their principal focus is to increase Chinese production. And that production will compete directly with U.S. exports, not only to China, but to other countries as well.

Agribusiness/Pharmaceuticals

Archer Daniels Midland, Cargill, Continental Grain and Monsanto Co. already have or are exploring production opportunities in China despite growing exports from U.S.-based production facilities. **ADM Co.** has committed an estimated \$80 million to a seven-plant processing complex in Shanghai. **Continental Grain** has over 25 joint ventures in China. **Monsanto**, despite having its products pirated, recently announced plans for an agricultural-chemical plant in China (Business Week, May 20, 1996).

Pfizer Inc. established a joint venture in 1994 with a total investment of \$50.4 million. The joint venture produces mainly antibiotics which are substitutes for imports. According to company estimates, these products helped China save about \$20 million in foreign exchange in 1994 (Business Weekly, China Daily Publications, January 15, 1995).

Aerospace

Boeing Corp. is unarguably the most successful U.S. exporter to China, holding some 70% of the Chinese civilian aircraft market. Even this success is beginning to have a high price as Chinese demands for offsets and technology transfer intensify. For example, tail sections for the Boeing 737 are made in China in the same plant in which Chinese military aircraft are built.

On the other hand, **McDonnell Douglas** has had one of the best-known and most unsuccessful ventures in China. In fact, a former **Douglas** executive (modestly) claims "[I]n the end we were betrayed" (Wall Street Journal, May 22, 1996). **Douglas** was actually one of the first companies to transfer massive amounts of technology, setting a standard for others that followed. The president of the company's operations in China stated "We're in the business of making money for our shareholders. If we have to put jobs and technology in other countries, then we go ahead and do it" (New York Times, February 25, 1995, p. 39).

Not only had **Douglas** transferred technology but they trained Chinese engineers for domestic production. Jobs were also part of the equation as **Douglas** agreed to let Chinese workers assemble planes from imported U.S. kits. In addition, **Douglas** agreed not to solicit Chinese airlines to buy planes manufactured in the U.S.

Later, China's aviation authority used a \$4.5 billion carrot, a program to manufacture transport aircraft, the so-called "Trunkliner," to further pursue technology transfer. Before an agreement was signed, the Chinese first pushed **Douglas** to help China produce plane parts and Chinese authorities insisted on the spread of technology. This "diffused production" in the words of Joseph Kahn of the Wall Street Journal, "had just one major beneficiary: the Chinese military" (Wall Street Journal, May 22, 1996).

A special relationship apparently developed between **Douglas** and China's military. Engineers were often taken from the original MD-82 venture and were placed on military or air-force projects. Chinese officials sought **Douglas'** help in acquiring dual use machine tools to further missile and special aircraft development.

In the end China canceled the fabled "Trunkliner" project. To preserve some semblance of a relationship, **Douglas** with the help of late commerce secretary Ron Brown, was able to sign a contract for 40 MD-90s--20 of which will be produced in Shanghai.

Vehicles And Parts

GM holds 30 percent of a joint venture with Jinbei Automobile Co. to build one-ton pick-up trucks in northeast China.

GM recently won the right to negotiate with a joint venture partner in China to build 100,000-150,000 mid-size cars in China with Shanghai Auto Industrial Corporation. According to **GM Overseas Corp.** vice president Robert Rice, **GM** would "spare no effort to introduce the most advanced production technologies to China and help China develop high-grade automobiles" (Journal of Commerce, June 10, 1995).

GM's Delphi parts division has recently announced that it plans to establish more than 20 parts production plants in China in the near future. Several plants were opened by **Delphi** in 1995 on top of

others already in operation. Those plants produced drive shafts, wiring harnesses, ignition systems and engine control systems.

Delphi licensed production of wiring harnesses, spark plugs, starter motors, alternators, and steering gears to Chinese producers several years ago. It will produce as many as a million maintenance-free batteries next year and sell them throughout Asia in addition to within China.

Chrysler makes Jeep Cherokees and a utility vehicle in Beijing with a partner.

Ford has parts plants scattered around China. It builds audio and electronic parts in Shanghai, and is also making instrument panels with Shanghai Automotive Industry Corporation and safety glass for windshields with Yao Hua Glass Works.

Tenneco Automotive, a leading supplier of auto parts, launched its first joint venture in 1995. The investment and technology is expected to triple the Chinese partners existing production. The products, mainly shock absorbers, will supply auto producers in China. Local content requirements of up to 80 percent require that Western suppliers team up with domestic companies (Business Weekly, China Daily Publications, November 20, 1995).

Delco Electronics under **Hughes Corp.** is negotiating with Chinese suppliers to establish joint venture manufacturing auto parts in China.

Borg-Warner makes gearboxes and **Allied Signal** makes fuel systems. **TRW** makes engine valves in a joint venture. **Dana** makes drive shafts in Tianjin with Shul Hing Manufacturing Company and makes filters in Tianjin as well. **Goodyear** makes tires and hoses with joint venture partners. **United Technologies Automotive** produces electrical distribution systems in China with European and Chinese partners. **Kaiser Aluminum** helped build two aluminum wheel casting plants in China.

Kaiser established two joint ventures that will develop deep-processing of aluminum for use in building and industrial settings in two of China's provinces (Guizhou and Sichuan). The two production lines and technology will be imported from Kaiser (Xinhua English Newswire, March 30 1995).

Electronics

Motorola recently became one of the first foreign companies to build a wholly owned semiconductor plant in Tianjin, China, a \$720 million investment. The new investment is designed to enhance existing Chinese capacity in producing semiconductors. Mass production is scheduled to begin in 1998, with products to be marketed domestically as well as abroad (China Daily, September 25, 1995). Last October, **Motorola** announced a joint venture with Nanjing Panda Electronics Group Corporation to produce personal computers. **Motorola** has investments (or planned investments) in China worth \$1.2 billion, producing goods like cellular phones, and in February 1996 announced plans to build a new plant in China to produce pocket pagers.

Hewlett Packard opened a \$29 million inkjet printer manufacturing plant in the economic development zone of Waigaoqiao. The plant will at first produce 20,000 printers a month, with production expected to reach 200,000 a month within two years, and generate revenues of \$100 million annually. All machines are supposed to be exported—though expectations are that 30 percent will be sold to the domestic (Chinese) market (Journal of Commerce, May, 14 1996).

Whirlpool from 1994-95 has established four joint ventures in China to make and sell refrigerators, microwave ovens, washers and air conditioners. These operations will export products to other countries in Asia and elsewhere. In 1994, Whirlpool invested \$107 million in two of those joint ventures. Workers in a Whirlpool manufacturing plant in Indiana have a pending trade adjustment claim with the Dept. Of Labor's Trade Adjustment Assistance Office.

In 1994, **AT&T** announced a series of deals that totaled \$150 million in investments in China. China insisted that **AT&T** Bell Laboratories must make most of the equipment there (Washington Post, April 29, 1994). **AT&T** is manufacturing both corded and cordless telephones in Guangdong province for export to the United States. Business projections for its operations in China show earnings of \$3 billion by the year 2000. **AT&T** led the resistance to a human rights proposed "code of conduct" for U.S. companies, stating it "would be viewed by the Chinese government as another attempt to influence Chinese domestic politics and would be detrimental to U.S. business" (Multinational Monitor, April 1996).

General Electric, which has 13 businesses and \$150 million invested in China already, announced in May its 14th operation. The alliance will allow China to produce the most advanced colored ultrasound equipment in the world and greatly expand exports (Xinhua English Newswire, April 24, 1996).

Hughes Electronic Corp. announced in late 1995 that it plans to invest up to \$1 billion in China over the next decade. Hughes stated much of the investment will be in the fields of telecommunications, space, electric vehicles and automobile parts. Hughes, which has signed a contract to make a communications satellite for China, will provide equipment for a ground control station in Beijing and train Chinese satellite controllers and analysts (Xinhua English Newswire, October 10, 1995).

Duracell began construction of an alkaline battery manufacturing plant in China during 1995 in addition to forming new subsidiaries. Another battery company, **Ultralife Batteries**, sold to the China Development Program manufacturing equipment, training and factory start-up support. The company had already transferred technology under the first phase of the program in fiscal 1993. Production of its Chinese-based subsidiary was to be producing batteries by the first quarter, 1996.

In 1994, **Pulse Engineering Inc.** completed the transition of their manufacturing operations to the People's Republic of China.

During 1994, **CopyTele** signed a letter of intent with **Shanghai Electronics Components Corporation** ("S.E.C.C.") to form a joint venture in Shanghai, China. The company has been advised that S.E.C.C., an electronics components company, is wholly owned by the government of China. The joint venture will develop, manufacture and market products worldwide in the telecommunications field.

Ault Corp. fiscal 1995 sales benefited from the exceptional growth of its Aultra line of low-cost transformers, manufactured through subcontracting arrangements in the Peoples Republic of China. A California based-computer company, **AST Research Inc.**, is selling PCs domestically that were assembled in China (Business Week, December 12, 1994, p.57). **GTI** established its third plant and utilized another subcontractor in China "responding to competitor and customers needs." **VeriFone** in 1994 stated in its annual proxy that "to meet growing demand, VeriFone began building a high-volume manufacturing center in Kunshan, Peoples Republic of China."

Miscellaneous Manufacturing

Eastman Chemical, which entered the Chinese market in 1979, and produces a growing number of specialty and industrial chemicals, plastics, and fibers announced in April that it plans to invest \$200-400 million in China over the next decade. Eastman announced it was working with the Chinese government and potential joint-venture partners on several projects that will feature Eastman's "state-of-the-art-technology" (Xinhua English Newswire, April 4, 1996).

DuPont Co. has plans to increase its stake in China from current investments totaling \$350 million to \$1 billion over the next five years.

Otis Elevator Co. first entered the China market with a joint venture in 1984, and has since established four major ventures in Tianjin, Beijing, Guangzhou, and Shanghai. Despite having its headquarters in Connecticut, 89 percent of the company's workforce resides outside the U.S. (Xinhua English Newswire, March 11, 1996).

Fedders Corporation, the largest home air conditioner manufacturer in North America, recently sent up a joint venture in Zhejiang Province. The venture plans to manufacture up to 500,000 units by the third year of operation. The air conditioners will be sold domestically as well as abroad (Xinhua English Newswire, November 11, 1995).

VF Corporation, the parent company of Lee Jeans announced a joint venture in China where it will begin to manufacture Lee Jeans.

Worker Rights and Labor Standards in China

The Chinese government crushed the loose worker groupings that developed during the 1989 democracy movement. Leaders are either dead, in jail or keeping an extremely low profile. Independent unions remain banned, working conditions are deteriorating, and the government's reliance on forced labor continues.

Even attempts by worker activists to promote a discussion of labor rights issues under China's legal framework have landed most of them in jail. The plight of Zhou Guoqiang, a leading advocate of this approach and a close associate of Han Dong Fany, is typical of what has happened to the few Chinese labor activists that tried to keep the movement alive after 1989. Secretly detained by the Public Security Bureau for six months in 1994, Zhou was then sentenced after a show trial which was held at a remote prison camp. He is presently in ill-health and may not survive his prison sentence.

Freedom of Association

The primary vehicle by which workers protect their rights is through membership in an independent trade union. In China, this is simply not possible. The February, 1994 issue of the All China Federation of Trade Union's official magazine defined trade unionism this way: "The premise for unions [in China] is to carry out the tasks of the party." In 1990, the ACFTU reacting to orders from the Communist Party in the wake of the 1989 Democracy Movement sent out the following circular, "Unions in China should resolutely uphold the unitary leadership of the party. Unions at all levels should maintain a high degree of unanimity with the party politically, in ideas and actions." At 1995 anniversary celebrations, the ACFTU General Secretary used this same quote to reaffirm the ACFTU's subordinate role to the party.

The party retains control of the ACFTU through the top-down selection of its officers, provincial and national level. A party document states:

the administration of union cadres by the party is an unchangeable principle. The ACFTU should work together with the Organization Department of the Central Committee of the Chinese Communist Party in laying down regulations concerning cadre management and in the nomination, investigation, election, approval and allocation of unions leaders.

Collective Bargaining

While collective bargaining remains impossible for workers employed by state enterprises, there are efforts underway to give the appearance of union organization and bargaining in the new mixed sectors, which are dominated by foreign investment. The State Department's Human Rights Report notes that according to Chinese government data, 86 percent of all foreign or mixed enterprises have union representation. The reality however is that the ACFTU presence in these enterprises is to control workers, not to serve their interests.

A recent report by Australian academic, Arita Chan, confirms the overall impression that sham unions are being created in China on a massive scale. She notes that in many unions either the factory managers or their subordinates are chosen to become the leading union officers. For example, she documents that in a township near Hong Kong, all union leaders are managers of the factories. At some of these factories, workers are not informed of the new union or invited to join. In the Minhang district of Shanghai, 67 percent of union leaders are on the managerial staff of companies, 20 percent are Communist Party officials and 13 percent are managers or deputy managers.

The hollow nature of China's unions is also demonstrated at the district level. In China's economic zones, the trade union bureaucracy is often the same as the local government bureaucracy. For example, the deputy trade union leader in the Pudong development zone in Shanghai is the director of the Pudong Economic and Trade Bureau. In Nanhui county of Pudong, the local trade union leader was the manager of the local government's industrial zone and the deputy director of a county joint venture shoe factory. Other information indicates that the government assigns staff to ACFTU regional offices and pays their salaries.

By participating in this charade, many U.S. investors are directly complicit in the continued suppression of Chinese workers.

Labor Standards

Labor standard laws are routinely violated by China's new class of employers. For example, the human rights report notes that, "As in other areas of China, officials admit that some foreign investors in special economic zones are able to negotiate sweetheart deals with local partners which effectively bypass labor regulations." Studies conducted in the past year of China's toy, garment, and electronics industries, in which there is heavy foreign investment, all paint the same picture: excessive hours worked, violation of minimum wage laws, poor health and safety conditions, physical abuse by managers, and illegal levies and deductions. The report on the electronics industry noted for example, that eight of 14 factories surveyed paid less than the legal minimum wage. In one factory, researchers found that workers were forced to work an average of 80 to 90 hours of overtime a month, far exceeding the legal limit of 36 hours.

Migrant workers from other parts of China are special victims. Exploitation for many begins even before they reach their jobs since they are required to pay recruiters in order to get jobs in the first place. These payments can be very large and may take years to payoff leading to a form of bonded labor. Migrant workers are often subjected to physical intimidation by factory supervisors who feel free to inflict punishments since local authorities often see migrants as threats to the local security situation.

Occupational safety and health conditions in most Chinese factories are very poor. So called three-in-one factories (which contain production, storage and dormitory facilities), though outlawed because of fire safety, operate in the thousands in southern China. Workers are routinely asked to handle hazardous chemicals about which they know little and breath fumes in poorly ventilated factories. This past summer, surveys conducted by the Hong Kong Christian Industrial Committee, found that most toy industry workers were not protected from noxious fumes caused by spray paints and glues, toiled in factories that did not meet fire prevention regulations and/or building safety codes, and worked without adequate training on dangerous machinery that lacked protective equipment. In describing a recent fire in Southern China that led to a number of deaths, one Chinese industry association official from the north called working conditions in the South "super-exploitation" that far exceeded the normal excesses to which he was accustomed.

Child Labor

There is a growing body of evidence that the use of child labor is growing in China. This evidence is based on reporting of individual incidents rather than surveys since the Chinese government has little interest in exposing the problem. As in other labor standards areas, the Chinese have adopted legislation that follows international norms. Children under 16 are prohibited from working in industry, yet local authorities routinely ignore the regulations. One of the most common practices is for recruiters to secure forged identification documents which they distribute to girls of 14 and 15. They then are placed in joint venture and township enterprise factories which produce goods for foreign markets.

Forced Labor

China continues to use forced labor as a part of its production system and makes no apologies for the practice. Since it makes no distinction between political prisoners, which number in the tens of thousands, and "regular criminals" they too become a part of the system.

In October, 1991, China officially "banned" the export of products produced by prison labor. In August, 1992, the U.S. signed a Memorandum of Understanding with China, amended in 1994, which purported to establish a process through which the U.S. could investigate allegations of forced labor used in goods that are exported. That process was to include U.S. access to suspect facilities in China. The implementation of the agreement has been unsatisfactory, and forced labor produced goods still find their way to the export market. Some are transshipped through Hong Kong, with the names of products changed to correspond with non-prison factories.

The continuation of forced labor exports is particularly reprehensible since the importation of such goods into the United States is illegal. At very least, adequate resources should be made available to the U.S. Customs Services to ensure compliance with U.S. law.

Conclusion

The AFL-CIO does not seek the isolation of China, or the elimination of trade and investment. We seek a relationship that will benefit working Americans; a relationship that puts the U.S. on the side of the oppressed, not the oppressors; a relationship where the rules of trade are fair and equitable; and a relationship that understands that this country has interests that are more important than the balance sheet of an individual company.

Merely maintaining the status quo will accomplish none of these goals.

The AFL-CIO urges your support for the disapproval resolution and the withdrawal of MFN status for China.

Thank you.

Chairman CRANE. Thank you, Mr. Anderson.

Chairman CRANE. The next witness, Mr. Jendrzejczyk.

**STATEMENT OF MIKE JENDRZEJCZYK, WASHINGTON
DIRECTOR, HUMAN RIGHTS WATCH/ASIA**

Mr. JENDRZEJCZYK. Thank you, Mr. Chairman, for inviting us to testify again before the Subcommittee on Trade. My name is Mike Jendrzejczyk, and I am the Washington director of Human Rights Watch/Asia.

Last week, Mr. Chairman, marked the 7th anniversary of the Tiananmen Square massacre. Most of the sanctions imposed against Beijing since that brutal event have been lifted, and I think it is fair to say that China's leaders have made rather rapid progress in shaking off the stigma of Tiananmen Square. They have aggressively sought China's acceptance and full integration into the international community as a great power.

Furthermore, using access to China's markets and to investment opportunities, the Chinese government has largely insulated itself from effective international pressure to improve human rights.

The United States and the other G-7 countries, lacking a coherent, multilateral approach for promoting human rights and the rule of law in China, have been subject to lobbying and manipulation as Beijing plays off one major trading partner against another. Although President Clinton has delinked trade and human rights, China clearly has not.

For example, this past April, at the UN Human Rights Commission in Geneva, China successfully used trade and aid deals to prevent even a mild resolution criticizing its human rights record from even coming up for a vote.

Mr. Chairman, I think it is fair to say that none of the witnesses you have heard today would really favor in the long run isolating China. Certainly, we do not disagree with President Clinton's broad objectives and goals for United States-China policy as outlined in his speech two weeks ago. However, we would challenge the President's assertion that its constructive engagement approach, whatever its other merits, does offer a long-term viable strategy for improving China's human rights practices.

With his decision again to renew MFN unconditionally, the President has again rejected the use of economic pressure to improve human rights, while of course, the administration is I believe effectively thus far wielding that pressure on behalf of intellectual property rights. I would also note that it is ironic that the Chinese government claims to have difficulty finding factories manufacturing pirated CDs and videotapes, but seems to have no difficulty hunting down political, religious or labor dissidents and throwing them into labor camps or forcing them into exile.

Mr. Chairman, we believe the annual MFN debate does provide a useful opportunity for Congress to scrutinize United States-China policy as well as to focus attention on China's dismal human rights record. Yes, it is a blunt instrument, but we do believe it would be premature to do away with this annual renewal process, especially when no one knows what is coming around the corner after Deng Xiaoping passes from the scene. At the very least, we think the process should be retained as a kind of insurance policy.

We have consistently taken the position that the United States should use various forms of economic and political pressure to promote human rights in China and Tibet both on a multilateral and a bilateral basis. Unfortunately, the Clinton administration, with its decision to back down after the President issued an Executive Order in May 1993 linking trade and human rights, has pretty much, nullified the impact of this direct linkage.

However, we do believe there are other steps the administration can and should be taking, and they are outlined in detail in my testimony, but I would like to briefly summarize them now.

First, we think the United States should try to limit the flow of World Bank funds to China for non-basic human needs projects and purposes. The World Bank as of this June will give for this fiscal year some \$2.9 billion in funds to China—more than to any other government in the world. We believe that the United States should use its influence as it has done previously in the case of Vietnam and as it is doing now in the case of Iran, to prevent such loans from coming up for consideration. At the same time, we think the administration should seek to channel World Bank funds to help solve in a constructive way major social problems such as the one you mentioned earlier, that is, of migrant laborers.

Second, we believe that Congress should insist on voting on China's entry into the World Trade Organization, and we believe the President should be required to certify that certain trade and human rights conditions have been met before China can join the WTO. We think it is impossible to separate China's behavior as a reliable trading partner from its willingness to abide by international human rights standards. A government that routinely violates its own laws the crack down on dissidents will also fail to honor contracts with foreign agreements or IPR agreements or, as it is doing now, try to restrict the flow of economic and business information from foreign news services.

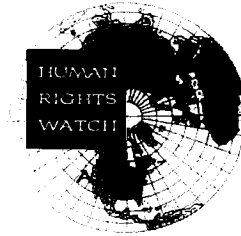
Third, we hope the administration—and we understand this is actively under consideration—will propose that relations with China and Hong Kong be on the agenda for the G-7 Summit Meeting later this month in France. We think that this is a crucial opportunity, the first such opportunity perhaps, that we can realistically hope to take advantage of since the Tiananmen Square crackdown, to develop a coherent multilateral approach among our main G-7 partners. We hope that the G-7 final communique or chairman's statement will include strong language not only calling for respect for human rights, but also for full compliance with the Joint Declaration on Hong Kong.

Finally, Mr. Chairman, in his talks next month in Jakarta with the Chinese Foreign Minister, we hope that Secretary Christopher will make it clear that the possibility of any summit meeting between President Clinton and Jiang Zemin can only be considered if there is significant progress on human rights in China and Tibet.

We are deeply concerned that in its eagerness to establish greater dialog between Washington and Beijing, the administration not trade away the substantial leverage and symbolic value of such high-level visits without receiving human rights concessions in exchange. We also, of course, hope that this will be on the agenda for Tony Lake's upcoming visit to Beijing.

Thank you very much, Mr. Chairman.

[The prepared statement follows:]



**Testimony before the House Ways & Means Committee
Subcommittee on Trade
On Most Favored Nation Trading Status for China
By Mike Jendrzeczyk, Washington Director
Human Rights Watch/Asia
June 12, 1996**

Thank you, Mr. Chairman, for inviting us to testify today on Most Favored Nation (MFN) trading status for China and the implications for human rights in China and Tibet. My name is Mike Jendrzeczyk, and I am the Washington director of Human Rights Watch/Asia (formerly Asia Watch), a private, independent human rights monitoring organization. Human Rights Watch has consultative status at the United Nations, and we have long been active in monitoring and reporting on human rights issues in China and Tibet.

In my testimony, I would like to comment on U.S. policy towards China and the current debate over renewal of MFN for another year. I will then present a brief description and analysis of recent human rights developments in China and Tibet. Finally, I will make some specific recommendations for consideration by Congress and the Administration.

Last week marked the seventh anniversary of the massacre in Tiananmen Square on June 4, 1989 and the subsequent crackdown on pro-democracy students and workers across China. Most of the sanctions imposed against Beijing since that brutal event have been lifted, and I think it is fair to say that China's leaders have made rather rapid progress in shaking off the stigma of Tiananmen Square. They have aggressively sought China's acceptance and full integration into the international community as a great power -- despite an atrocious human rights record. Using access to China's markets and to investment opportunities, the Chinese government has largely insulated itself from effective international pressure to improve human rights.

The U.S. and other G-7 countries, lacking a coherent, multilateral approach for promoting human rights and the rule of law in China, have been subject to lobbying and manipulation as Beijing plays off one major trading partner against another. Though President Clinton delinked trade and human rights with the MFN decision in May 1994, China clearly has not. Beijing successfully used the prospect of a huge Airbus jet deal to silence the French government when Premier Li Peng visited Paris this past April: all references to human rights were deleted from the official toasts and speeches.

During months of intensive lobbying worldwide, China employed the carrots and sticks of trade and aid deals to line up votes at the U.N. Human Rights Commission in Geneva. In late April, a procedural motion was adopted by the Commission (by a vote of 27-20 with six abstentions), preventing a resolution mildly critical of China's human rights record from even being debated or voted upon. The Clinton Administration and the European Union deserve credit for cosponsoring the resolution, but its defeat underlines the urgent need for the G-7 leading industrial countries to develop a common human rights agenda and strategy that cannot be so easily undercut by Beijing's substantial economic clout.

U.S. Policy on China:

Mr. Chairman, in his speech on May 20, 1996 to the Pacific Basin Economic Council, President Clinton outlined a set of broad goals and objectives for U.S. China policy. He correctly noted that today, "China stands at a critical crossroads. Will it choose the course of openness and integration, or veer toward isolation and nationalism?...Our interests are directly at stake in promoting a secure, stable, open and prosperous China" that embraces and abides by international rules of behavior and "evolves toward greater respect for the basic rights of its own citizens." We certainly would not disagree with those broad goals; isolating China would be in no one's interest. But we would strongly challenge the President's assertion that the administration's "engagement" policy, whatever its other merits, offers a viable strategy for helping to bring about improvement in China's human rights practices. With his decision on May 31, 1996 to renew MFN unconditionally, the President has rejected the use of economic pressure to promote human rights. One must question what tools the Administration has left or whether it has simply abandoned any serious attempt to address human rights at all.

The Administration intends to replace pressure with "frank dialogue." But what does that mean in practice? Criticizing the detention of Wei Jingsheng without making any concrete effort to bring about international access to Wei and other prisoners? Asking for information on lists of prisoners without thinking through any mechanism by which the Chinese government's response can be independently verified? There is no meaningful bilateral dialogue on human rights now underway, nor does the Administration seem to be giving much thought to what such a dialogue could or should achieve.

The Administration seeks to downplay human rights as a point of tension in U.S.-Sino relations, while setting the stage for more frequent and higher level contacts between the U.S. It is possible that an improved "atmosphere" may somehow moderate Beijing's abusive treatment of dissidents. It is equally possible that improved relations with the U.S. will convince China that there is no cost to suppression of fundamental rights. We accept the premise that contact and diplomatic discussions can be useful. But again, toward what end? The State Department apparently refuses to use talks about a possible presidential summit -- probably the single most important political concession the U.S. can give to China -- to clearly define what it expects in terms of concrete human rights improvements by China *before* any such meeting can take place.

Finally, the Administration plans to increase trade with China and support Beijing's entry into the World Trade Organization (WTO), arguing that in the long term, "freer enterprise (will) fuel the hunger for a more free society." (Quote from the President's Pacific Basin speech.) But the Administration has also said it is opposed to any formal linkage between its decision on China's bid to join the WTO and human rights considerations, despite the fact that Beijing's observance of global trading rules is heavily dependent on its ability and willingness to enforce laws and carry out other basic human rights obligations.

Moreover, there is a fundamental contradiction in current U.S. policy. On intellectual property rights, the U.S. is willing to threaten limited, targeted trade sanctions of \$2-3 billion, including increased tariffs on goods produced by state enterprises. These are the very kind of sanctions the Clinton Administration said in 1994 were legally questionable and practically infeasible to impose in response to severe human rights violations. (Ironically, an editorial in the state-run China Daily accused the U.S. of threatening tariffs over intellectual property rights as a "dirty trick" motivated by the failure of the U.S.-supported resolution on China at the U.N. Human Rights Commission.)

So what are we left with? In terms of human rights, the U.S. will focus on stimulating legal exchanges and legal reform in China -- a laudable enterprise, and later in my testimony I will offer an assessment of some recent legal reforms. But the State Department acknowledges that such efforts are in the very early stages of development and may have little impact on ending serious human rights abuses occurring right now.

Human Rights Developments in China and Tibet:

In the two years since the President's "delinking" decision, there has been no improvement in human rights in China and Tibet. Quite the contrary: in recent months, Chinese authorities have ordered increased surveillance of so-called "counter-revolutionaries" and "splittists" (Tibetans, Uighurs and other national groups) and given even harsher penalties for thus judged guilty of violating its draconian security laws. Just as China has largely succeeded in muzzling effective human rights criticism abroad, it has silenced most, if not all, of the important dissident communities inside China including political and religious dissidents, labor activists, and national minority populations. Their members have been exiled, put under house arrest, "disappeared," assigned to administrative detention, or subjected to economic sanctions and systematic discrimination in schooling and employment. Dissidents also continue to suffer criminal charges, long prison sentences, beatings and torture.

Without sustained, consistent international pressure on human rights, Beijing has little or no incentive to moderate or restrain its repressive policies.

China's behavior seems related, at least in part, to the government's development strategy that has stimulated inflation, unemployment, and the withdrawal of the social welfare safety net for millions of Chinese citizens. This has led to increasing disparities between income

levels and overall economic development in the southern and coastal areas and interior provinces, and between urban and rural areas. Corruption and higher levels of crime have added to the potentially volatile mix. In this environment, large numbers of strikes and labor stoppages, as well as peasant riots, have increased the government's and Communist Party's sense of insecurity and paranoia. Thus Beijing seems determined to crack down hard on any potential sources of instability or open political opposition.

China observers have noted that Deng Xiaoping's policies have created two separate but parallel Chinas. On the one hand, there is the "new China" of entrepreneurs, neon nightclubs, and luxury cars. But behind this bright facade is the "old China" of failing state-owned factories filled with angry workers; poor peasants in poverty-stricken rural areas; prisons where murderers and democracy activists are kept together; and an army and government of veteran revolutionaries can imagine no way to stability except through political repression. Will Deng's strategy of liberating economics while suppressing politics eventually lead to greater prosperity and openness, or will mounting internal pressures lead to a cycle of chaos and repression? This is the underlying question that must be addressed in devising policy towards China.

The Chinese government seems particularly sensitive at this time to the perceived threat posed by dissidents from different constituencies who might band together. It is also fearful of domestic critics building links with "hostile" organizations overseas, and even governments, to obtain support for alleged conspiracies against the government. This might help to explain the incredibly harsh fourteen-year prison sentence given to veteran pro-democracy activist Wei Jingsheng last December. It may also help explain Beijing's recent actions imposing further restrictions on freedom of expression and communications channels, such as access to the Internet and worldwide web.

Examples of recent Chinese government actions:

-- Police recently detained Wang Donghai and Chen Longde. They searched Wang's house and seized various documents and papers in the southern province of Zhejiang. Along with five others, they had signed and circulated a petition to the National People's Congress demanding an end to corruption, a reversal of the verdict against the 1989 student movement, and calling for the release of prominent political prisoners such as Wei Jingsheng and Wang Dan. A former leader of the 1989 movement, Wang Dan was detained in May 1995 in conjunction with a similar petition to the government circulated last spring, and has disappeared since then. Over fifty people were detained in conjunction with the 1995 petition campaign; more than twenty are still imprisoned.

-- On May 27, 1996 Bao Tong, former Communist Party official and top aid to party chief Zhao Ziyang, was released from prison in Beijing after serving a seven-year term for "leaking state secrets" but was immediately taken out of the city where he has been kept under house arrest west of Beijing. It is not yet clear whether and when he can return home, and what restrictions will be imposed upon him; his political rights remain suspended for another two

years as part of the original sentence. Bao Tong, in his mid-60s, suffered from serious medical problems while in prison but the authorities refused his family's many requests for his early release on medical parole -- as well as quiet appeals from the State Department and White House.

-- Persecution of released dissidents remains intense. One of them, Liu Gang, who served a six year prison sentence in labor camp, was released in June 1995. But he was under constant surveillance, required to give weekly "thought reports" to the police, forbidden to have contact with foreign reporters, and blackballed from both universities and job possibilities. The police told him the only profession open to him was that of a beggar. His family members and friends were also harassed and interrogated. Liu Gang finally escaped from China and came to the U.S. last month. We are delighted that the U.S. Attorney General made it possible for him to obtain emergency residency status here, but we are equally concerned about many formerly imprisoned activities who remain behind, living under unbearable circumstances.

-- In February 1996, Xinhua, the official Chinese news agency, announced new regulations on the Internet that puts the state in charge of "overall planning, unified criteria, classification management and promoting development" of international computer networks. The State Council must approve all interactive networks, and individuals and organizations using them must be registered with the police. Provincial security officials have also issued sweeping rules and restrictions aiming at severely limiting international computer links. In addition, Xinhua has announced it will supervise foreign wire services selling economic information in China, screening their reports for "false economic news and attacks on China."

-- Repression in Tibet has escalated during the last year. In a report we co-published with the Tibet Information Network in March 1996, entitled Cutting Off the Serpent's Head: Tightening Control in Tibet 1994-1995, we estimate that there are now more Tibetans in detention for political offenses than anytime in the last six years, a total of at least 600. Torture continues to be widespread and goes unpunished by the Chinese authorities. A new edict published in April 1996 is aimed at discrediting the Dalai Lama as both a religious and political leader, banning his photo both in monasteries and schools and in private residences. Several protests have taken place in recent weeks and Ganden, one of three main monasteries in Lhasa, was sealed off by the police. During an incident there on May 6, 1996 a number of monks were arrested and three were shot and wounded, one seriously. There is an unconfirmed report that two monks may have been killed. Fighting broke out at Ganden and monks threw stones when a group of Communist Party cadres attempted to banned all photos of the Dalai Lama in Buddhist temples. The government had earlier announced that all politically active monasteries would be closed, and that it was imposing restrictions on the number of new monks and nuns that could be ordained.

In a separate reported incident on May 14, 1996, at least eighty people, including thirty young nuns, were seriously injured by police beatings. Earlier mass arrests occurred in July 1995 in conjunction with the selection of the new Panchen Lama; at least thirty-two monks were

arrested and some were severely tortured. Only recently, after repeated denials, have the Chinese authorities admitted that Gendun Choekyi Nyima, the seven-year-old child identified as the reincarnation of the tenth Panchen Lama is, in fact, in official custody.

Legal Reforms:

In March 1996, the National People's Congress enacted some limited but potentially important legal reforms, adopting an Administrative Punishment Law and amending the Criminal Procedure Law (CPL) for the first time since 1979. The changes in the CPL, which take effect on January 1, 1997, would shift the presumption of innocence, requiring a verdict of innocence if there is insufficient evidence to convict; it would also impose more stringent limits on time in detention prior to formal arrest. The reforms would also permit a defendant access to a lawyer during interrogation and indictment. However, access to legal counsel is not allowed until after the "first interrogation" -- when the use of torture is commonplace -- and in cases where state secrets are involved, the investigating unit must approve a request to retain a lawyer.

But these new legal protections may be eroded by procedural defects, legal loopholes, and police ignorance, and a failure to vigorously press for their full implementation. For example, despite the legal guarantee that no organ or individual may interfere with the independence of the courts, there is nothing to prevent the Communist Party from doing so. Public security bureaus may still hold suspected criminals for up to one month before applying for judicial review and an arrest warrant.

On the positive side, the CPL does limit the power of the police to act without supervision. And the new Administrative Punishment Law, which comes into force on October 1, 1996, offers new protection to those subject to administrative punishment, such as the right to a hearing. It also attempts to rein in "rampant illegal fines and other disorderly penalties" given out by some local government authorities.

Clearly, pressing for further legal reforms, as well as the effective enforcement and implementation of those already adopted, should be a high priority for the U.S., the World Bank, private organizations of jurists, and other governments. But given the track record of Chinese officials for flagrantly violating existing legal protections and safeguards -- including those contained in China's constitution -- it would be a mistake to assume that steps towards building the rule of law will automatically lead to significant human rights improvements absent other forms of pressure.

Hong Kong:

At midnight on June 30, 1997, China will assume sovereignty over Hong Kong. Concern is growing among Hong Kong's citizens, the elected legislative council, and members of the business community about China's willingness to fulfill its commitments under the Sino-British Joint Declaration on Hong Kong of 1984. The Declaration promised that Hong Kong would

"enjoy a high degree of autonomy" after 1997. But in recent months, Beijing has threatened or actually taken steps towards overturning each of its obligations under the Joint Declaration. It has, among other things:

- Declared its intention to repeal of key provisions of Hong Kong's Bill of Rights;
- Announced that it will appoint a provisional legislature to replace the Legislative Council (Legco) elected last September, perhaps as early as the beginning of 1997, thus establishing a rival government and triggering a constitutional crisis in Hong Kong;
- Called on the Hong Kong government to "discipline" RTHK (Radio Television Hong Kong) for failing to cooperate with the demands of the China-controlled Preparatory Committee, responsible for matters related to the transition to Chinese rule;
- Stated that top civil servants will be required to take a loyalty test pledging their obedience to the laws enacted by Beijing's hand-picked legislature, although it has since stepped back somewhat from this position;
- Threatened the independence of the courts in Hong Kong by putting in the hands of the appointed legislature power to confirm judges for the Court of Final Appeal that will replace the Privy Council, and limiting the number of foreign judges on the Court.

The U.S. has a direct stake in the future of civil liberties, human rights and democracy in Hong Kong. As stated in the United States-Hong Kong Policy Act of 1992, "The human rights of the people of Hong Kong are of great importance to the U.S....A fully successful transition in the exercise of sovereignty over Hong Kong must safeguard human rights in and of themselves. Human rights also serve as a basis for Hong Kong's continued economic prosperity." Congress has a crucial role in pressing the U.S. to give a higher priority to Hong Kong in the months ahead. We would urge, for example, the Senate to adopt a "sense of Congress" resolution in the coming weeks -- one year before the handover -- noting the recent ominous trends, especially the threat against Legco, and highlighting Beijing's obligations towards Hong Kong under the Joint Declaration and relevant international human rights conventions.

Recommendations for U.S. Policy on China:

The annual debate over MFN renewal provides a useful opportunity for Congress to scrutinize U.S. China policy, as well as to focus attention on China's horrendous human rights record.

Human Rights Watch/Asia has consistently taken the position that various forms of economic and political pressure are needed to promote human rights in China and Tibet. We believe the U.S. should act both on a bilateral basis -- given its unique role as a superpower and as China's largest single export market -- and in the context of a long-term, multilateral strategy shared by Beijing's other major trade and aiding partners.

Unfortunately, the Clinton Administration has virtually nullified the impact of any direct linkage between MFN and human rights, such as the attachment of human rights conditions on

MFN renewal. It has done so by undermining and then repudiating its own previous policy of linkage, following the President 1993 Executive Order outlining human rights conditions for MFN renewal which China clearly failed to meet. U.S. credibility on human rights, and other matters, was seriously damaged. However, other measures to exert economic and political pressure should be actively explored, including the following:

1) The U.S. should seek to limit the flow of World Bank funds to China for non-basic human needs projects by exerting its leverage on an informal basis (as it has in the case of Iran and previously, in the case of Vietnam) to prevent large infrastructure or project loans from reaching the Bank's Executive Directors for consideration. Issuing occasional token or abstention no votes on human rights grounds is insufficient. China now receives more money from the World Bank than any other country: in the fiscal year ending June 1996, it received approximately \$2.9 billion in Bank funds. We welcomed the recent decision by the U.S. Export-Import Bank not to issue export credits for the Three Gorges dam, in light of both the environmental and human rights impact of the massive infrastructure project.

At the same time, the Administration should try to channel World Bank funds to help support constructive solutions to serious human rights problems with broad social implications in China, such as those affecting millions of exploited migrant laborers and the ill-treatment of children in state-run orphanages urgently in need of additional resources.

2) The Congress should insist on having a vote on U.S. support for China's bid to join the World Trade Organization. We believe that Congress should require the President to certify that China has implemented certain specific human rights and trade reforms, demonstrating Beijing's willingness to comply with global rules and standards, before he agrees to their WTO membership. Informally, the Administration has told China that its human rights practices are endangering prospects of persuading Congress to agree to WTO entry; it did this at the time Wei Jingsheng was put on trial and sentenced last year. This linkage should be made formal and specific. It is impossible to separate China's behavior as a reliable trading partner from its willingness to comply with universal human rights norms. A government that routinely violates its own laws to crack down on dissidents is equally willing and able to cheat on IPR agreements, fail to live up to contracts with foreign investors, or restrict business information on the internet. It is also possible that parliaments in other countries, for example in Europe, may impose similar conditions on their governments' vote on China's WTO membership, thus adding a crucial multilateral dimension to U.S. policy.

3) The Administration should propose that relations with China, and the future of Hong Kong, be on the informal agenda for discussion at the G-7 summit meeting in Lyon, France from June 27-29. There has been no consensus on China policy and human rights among the G-7 since the immediate aftermath of the Tianamen Square crackdown. As China goes through a critical political transition process, this is a strategic time to send coordinated signals. In addition, the future of the rule of law and democratic government is at stake in Hong Kong. The G-7 final communique or chairman's statement should include strong language calling for

significant improvements in human rights in China and Tibet, and full compliance with the Joint Declaration on Hong Kong.

In addition, we hope the G-7 will issue a joint demarche for the release of Wei Jingsheng, and will use the opportunity of this meeting to agree on a common, private human rights agenda with concrete benchmarks, such as restarting talks with the International Committee of the Red Cross and opening up Tibet to independent human rights monitors. All the G-7 should then agree to promote this agenda, using a combination of bilateral and multilateral tools. It is particularly important that the U.S. urge Japan to use its leverage with Beijing.

4) During his talks next month in Jakarta with the Chinese foreign minister about a possible summit meeting in the U.S. between President Clinton and President Jiang Zemin, or a potential visit to China by Vice President Al Gore, Secretary of State Christopher should make it absolutely clear that these meetings can take place only if there are meaningful steps taken by Beijing to improve human rights in China and Tibet. This should also be on the agenda for Anthony Lake's upcoming trip to Beijing. We are deeply concerned that in its eagerness to establish greater dialogue between Washington and Beijing, the Administration not trade away the substantial leverage and symbolic value of such high-level visits without receiving human rights concessions in exchange.

Chairman CRANE. Thank you, Mr. Jendrzeczyk.
Chairman CRANE. Next, we will hear from Mr. Gyari.

**STATEMENT OF LODI G. GYARI, PRESIDENT, INTERNATIONAL
CAMPAIGN FOR TIBET**

Mr. GYARI. Mr. Chairman, thank you very much for this opportunity to testify. I am also, as a Tibetan, very grateful to the U.S. Congress for the strong bipartisan support that you have given to my people.

Mr. Chairman, for the last 36 years, I have remained a person without a home, not being able to go back to my home country. More than 1 million of my people—and we are only 6 million people—have died as a result of China's occupation.

We are a very religious people. More than 6,000 of our monasteries were destroyed. But in spite of all that, I am not here today to do China bashing, I am not here to ask you to isolate China. In fact, I think no one is talking about isolating China, as some of your colleagues mentioned.

Several months back, when the Dalai Lama met with President Clinton, I was honored to be there, and I remember very clearly His Holiness telling President Clinton that this very idea of isolating or containing China is, first of all, not relevant, is impractical, but is even immoral. Any individual has a right to prosper, a right to progress, so therefore, for any individual or nation to try to contain or try to isolate is not only impractical but immoral. So therefore, obviously, I am also not here to suggest that we isolate China.

In fact, Mr. Chairman, years ago, many of the Western nations were not willing to go near China. We, and particularly the Tibetan leader, the Dalai Lama, were calling, urging the Western leaders, 20 years ago, not to isolate China, but to try to bring China into the fold of this big family of human beings.

But here today, I want to mention to you, Mr. Chairman, that we heard from the administration, and we heard from business leaders, and it is very clear to all of us that your relationship with China, the relationship between the United States and China, is not working, and that relationship is very important. That relationship is not working in spite of the fact that China has been given MFN; that has not been taken away from her. In fact, every sanction that was there—I have been in this city for 6 years—I saw, one after the other, being lifted. In fact, you did everything the Chinese wanted. In fact, you made your leaders lose face.

The earlier panel talked about losing face. Somehow, this notion that only the Chinese have face to lose is something that I really cannot understand. I think that we, as respectable people—everyone has face to lose; no one wants to lose face. Mr. Chairman, I think Americans are very tolerant people, and I respect that. But I saw your Secretary of State go to Beijing, representing your Nation as the foremost foreign policy spokesperson, being made to lose face by the same business leaders who came to testify in front of the CNN cameras in Beijing, as if it is only the Chinese who lose face and not the United States.

I think it is very important that the United States, the only remaining superpower, also not lose face. I think your not losing face is very important because we believe that America represents

some of the ideas that we also respect, including freedom and democracy.

So, Mr. Chairman, I hope that together, the business leaders, the Congress and this administration will also make sure that, while not making China lose face, you will not lose your face. I think that that is very important.

Let me go back to say that last week, your colleagues in the other house, in the Senate, also held hearings, and some of us were fortunate to be able to testify there. Secretary Winston Lord also testified, and in answer to Senator Moynihan's question about the situation in Tibet, Secretary Winston Lord expressed great concern about the situation, for which I am very grateful. Also, I am very grateful that he mentioned Tibet today. But then, he replied by saying that there is no leverage that we can use, and that made me think, because we are told that if you give all the things that China wants, then you will have leverage. This is what I was led to believe 2 years before by the President of the United States, that we are going to give the Chinese MFN, we are going to de-link MFN with human rights because we are going to use other vehicles, and this is going to make it possible for us to be able deal with the Chinese in a more reasonable manner.

So that 2 years after, when we hear the administration tell us that they have no leverage, I must say that this policy has failed, Mr. Chairman, and I think we now have to look for alternate ways of how you want to deal with China.

Therefore, I strongly feel that we must give serious thought to some of the ideas that have been expressed today. In the past, we at the International Campaign for Tibet have not gone to the extent of asking for revocation of MFN, because I do agree that MFN is a double-edged sword. We do agree that it also harms a segment of the Chinese people that we do not want to harm. We also agree that it can harm a segment of the people in Taiwan and Hong Kong, and obviously, that is not our intention. So therefore, in the past, we have always favored a middle path. We feel that there are ways outside of the two extremes—revoke it completely or give it unconditionally, but condition it so that some of the issues that we are all concerned about will be addressed.

Therefore, in the next 3 weeks, we are going to look very closely to see if there is another alternative that we can ask for. Not finding one, of course, I think the only alternative that will be left is to maybe even support revocation, but at this point, we are still creatively wanting to see if the Congress can give leadership by coming up with a solution which can deal with the problems that we want to deal with, but at the same time, save MFN.

This is our position at this stage.

However, it is also very important, Mr. Chairman, that people like yourself take into consideration all the views that have been discussed here today and, if possible, even conduct more hearings, because your relationship with China is crucial for the 21st century, for all of us. It is not enough that we have—with all respect—this is a capitalist society, and I respect when the business leaders come here and say that they can make tons of money. It is very good; we should respect that.

I also respect when Members of Congress say they have to support MFN because they have electorates in their States, in their districts. That is also absolutely right because that is what you are here for; you are here to represent the people who have voted for you. But, I do not find it acceptable when some business leaders or, for that matter, even some leaders, when they tell us that they are doing all of this, giving China MFN, giving China everything, because it is good for China's people, or it is good for the Tibetan people. It certainly is not.

I know it is not good for the Tibetan people because we are going through a period in Tibet just like the Cultural Revolution period. As I sit here and testify before you, our people are being arrested, our monks are being shot, and our monasteries have once again been closed. We are not even allowed to keep in our homes photos of the Dalai Lama, who is our supreme religious leader.

The second-highest leader of Tibetan Buddhism, Panchan Lama, a young boy, 7 years old, is being detained by the Chinese government, and the politburo of China have selected their own Panchan Lama.

So all of these things are going on, and if anyone tells me that the relationship with China is great, and that what we are doing is for the good of the Tibetan people or for the Chinese people, that I cannot accept.

Also in the last several days, on the Senate side, some Members even brought up the name of Wei Jingsheng, one of the greatest human rights activists in China, who is still under detention, using his name to justify giving MFN. I think such a thing is immoral. This person is still suffering. This person is still under detention. And to use something that he is supposed to have said to justify giving MFN to China I think is not right.

I can tell you sir that, yes, there are dissidents who do favor giving MFN, and they have some valid reasons. But, I also know through a very reliable source that there are many members of the central Committee of the Communist Party of China—there are at least a few people that I know of who are members of the Standing Committee of the National People's Congress who want you to be tough. I am talking about people who are members of the Communist Party of China. Obviously, I will not disclose their names, because it would be like sending them to 16 years of imprisonment.

So therefore, you have to look from every angle. This is very important for all of us. We should not just be guided by greed, because it is bottomless greed. We should also not be guided by short-term interests by political leaders or politicians. This is something that is very crucial to the relations of the United States with China.

China is important. No one disagrees with that. It is so important that you should really not rush through and just be guided by either the businesspeople or, for that matter, not even by those of us on this panel. But you should give it very serious thought.

I do have my written statement, which I have submitted for your record, and I would also like to join with Human Rights Watch Asia and say that we also strongly believe that even China's admission to the WTO should be discussed, and I think that this

Congress should definitely make it a condition, before China is allowed to join, that some of the fundamental issues that we have discussed here are respected by the Chinese.

Then, there is also some talk about calling things not "MFN" but "NTR" or "normal trade relations." It does not matter—whatever you want to call it. Even if it is normal trade, under the present circumstances, I think China does not deserve it, even if you want to call it "normal trade," because if I understand what the United States stands for, under the present circumstances, even if it is "normal" trade relations, I do not think she deserves it.

And then, let us not try to make it unimportant. Some people say, "That is not important; let them give it." It is important. It is important, and therefore you have these hearings all the time. It is important because the American corporate world is spending so much time trying to make sure that China gets MFN. MFN is very important for China right now, so your taxpayers are keeping alive the world's last remaining Communist authoritarian government on this planet, and that government is keeping thousands of my people in prison, they are torturing my people, they are closing down my monasteries, and they are also torturing innocent Chinese citizens.

Today, you can read in the newspaper that one of the few Chinese party members who dared to speak out has been officially sentenced, but is not allowed to go home. Why are they afraid of this one person? Why are they afraid of this young, 7-year-old Tibetan boy? It clearly shows that there is something a bit wrong there, sir.

With that, I know that I am running out of time, but I do wish to thank you once again for this opportunity. you have a very important role to play, and I hope that you will be guided by far-sightedness and wisdom and will take all matters into consideration before the Subcommittee makes up its mind.

Thank you, sir.

[The prepared statement and attachment follow:]



**Testimony of Lodi G. Gyari
President, International Campaign for Tibet**

**before the Subcommittee on Trade
House Ways and Means Committee
Hearing on U.S. - China Trade Relations and
Renewal of China's Most Favored Nation Status**

Tuesday, June 11th, 1996

Thank you for providing me this opportunity to testify before you on the situation in Tibet and on Most Favored Nation (MFN) trading status for China.

My name is Lodi Gyari and I was born in Nyarong in the Tibetan province of Kham. I am President of the International Campaign for Tibet, a Washington-based, non-governmental organization dedicated to the promotion of human rights and democratic freedoms for the people of Tibet. I am also Special Envoy of His Holiness the Dalai Lama and have served in both the Tibetan Parliament and Cabinet in Exile in Dharamsala, India.

I would like to once again express my deep appreciation to the U.S. Congress for its tremendous leadership on the issue of Tibet. The numerous resolutions passed by you and your colleagues condemning human rights violations in Tibet and providing financial and other assistance to Tibetan refugees have given significant encouragement to the Tibetan people. It is fair to say that the Tibetan people owe a great debt of gratitude to the U.S. Congress for supporting their ongoing struggle for basic rights and for recognizing that the plight of the six million Tibetans is an important American interest.

Mr. Chairman, given that this Subcommittee will be considering President Clinton's request for a MFN waiver for China, I regretfully must report to you that there have been no positive developments in China's policies towards Tibet over the past year and that the human rights situation in Tibet has in fact deteriorated.

Recent Crackdown

The most severe wave of repression since martial law was imposed in 1989 is now occurring in Lhasa, Tibet's capital, as a result of a drive by Chinese authorities to remove all photographs of the Dalai Lama from monasteries, schools, businesses and private homes. This campaign against His Holiness began in April of this year when an announcement was made that monasteries and temples would be banned from displaying photos of the Dalai Lama. Pictures of the Dalai Lama had been allowed since 1979 as part of a Chinese decision to allow religious expression in Tibet.

According to news reports and human rights organizations, two truckloads of injured Tibetans were taken to hospitals in Lhasa in mid-May by a police escort. It is presumed

that these Tibetans were injured when they resisted the imposition of the photo ban. In another incident earlier last month at Ganden Monastery, located near Lhasa, at least three monks were shot and wounded and another monk was severely beaten by police sent to enforce the ban. The number of monks arrested during this incident is said to vary from 7 to 70. There are reportedly only a few monks left at the monastery and Chinese officials have announced that they plan to keep it sealed for at least 2 to 3 months.

Chinese police have also begun sweeps of hotels, restaurants and shops in Lhasa, ordering that photos of the Dalai Lama be taken down. Reports also indicate that officials have conducted house to house searches to inspect whether pictures of the Dalai Lama were on display. This crackdown is part of an ongoing campaign by the Chinese government to restrict religious expression in Tibet and to discredit the Dalai Lama, not only as the political leader but also as the spiritual leader of the Tibetan people.

Panchen Lama

Just two weeks ago, the Chinese government admitted for the first time that they are holding Gedhun Choekyi Nyima, the 7 year old boy named by the Dalai Lama as the 11th Panchen Lama, the second highest ranking religious figure. The young boy, believed to be the "world's youngest political prisoner", and his family have been held in a secret location in China for over a year. In total disregard of the Tibetan people's traditions and beliefs, the Chinese Government announced in November 1995 that they had found the "real" Panchen Lama and have since attempted to impose their selection on the Tibetan people.

Restrictions on Religious Practice

In addition to China's abduction of the Panchen Lama, there has been a heightened campaign by the Chinese Government to repress the spread and practice of Buddhism in Tibet. Authorities have set a limit on the number of monks and nuns in all monasteries and have halted the unauthorized rebuilding of monasteries destroyed during the Cultural Revolution. Beijing has also vowed to close problematic monasteries and jail "separatist" monks and nuns. New restrictions have also been imposed on youths joining monasteries and government officials have been prohibited from practicing religion.

Political Prisoners

There are close to 700 documented political prisoners in Tibet today. This does not account for the hundreds, maybe thousands, of prisoners whose names have not been determined. These political prisoners include hundreds of monks and nuns who have been detained solely for expressing their religious and political beliefs. One political prisoner, Ngawang Choephel, was arrested last year while making a documentary video about traditional Tibetan music. Ngawang did not live in Tibet and was visiting from India in order to conduct his study. In 1992-93, he studied at Middlebury College in Vermont as a Fulbright scholar.

Population Transfer

The greatest concern of the Tibetan people continues to be the tremendous influx of Chinese settlers into Tibet. Many of the settlers come to Tibet as a result of economic and other incentives provided to them by the Chinese Government. In addition, the prospect of economic opportunity is luring Chinese entrepreneurs to Tibet's towns and cities. As a result of this influx, the number and influence of Chinese in Tibet is marginalizing the Tibetan people politically, economically and culturally.

Negotiations

His Holiness the Dalai Lama has stated that the only way to bring about a peaceful resolution to the situation in Tibet is through a mutually-acceptable negotiated settlement between the Chinese and Tibetan people. To this end, he has issued several forward looking proposals, including the Five Point Peace Plan and the Strasbourg Proposal, in which he has agreed not to raise the issue of independence during negotiations. However, the Chinese Government has refused to respond positively to his proposals and continues to disregard the Tibetan people's fundamental rights.

At this time, I would like to submit for the record the testimony of His Holiness who recently appeared before the Foreign Affairs Committee of the Danish Parliament to express his views about the current situation in Tibet and about the process of change which is occurring in China.

Clinton Administration Policy on MFN for China

Mr. Chairman, when President Clinton decided in May 1994 to abandon his policy of linking human rights conditions to renewal of China's MFN status, he threw away a powerful tool in the United States' arsenal to press for significant improvements in human rights in China and Tibet. We at the International Campaign for Tibet were greatly disappointed by the President's decision to back down from a policy which could have produced results, had he stuck with it. If any one country has the ability to influence China's policies towards Tibet, it is the United States.

Prior to the President's decision two years ago to de-link human rights and trade, we had been informed that a very high level Chinese delegation made a low profile visit to Washington, headed by a former Chinese Ambassador to the U.S. During their visit, this delegation expressed its concern about the condition in the President's Executive Order of 1993 which called for the Chinese to "preserve Tibet's distinct religious and cultural heritage" in order to continue to receive MFN from the US. The delegation reportedly sought suggestions on how they could meet the minimum requirement of this condition regarding Tibet in order to not jeopardize their MFN status. This episode demonstrates that until the President blinked and it became clear that he would continue to provide MFN status to China whether or not they met the conditions in his Executive Order, the Chinese were prepared to make the necessary improvements in Tibet. Perhaps the situation in Tibet would not be as bleak as it is today if the President had stuck to his policy. This lost opportunity has had dire consequences in Tibet where over the past two year the Chinese have felt more emboldened that ever to repress the Tibetan people.

It is imperative that we not forget that today it is China who is benefiting from its trade relationship with the U.S. and that they would still go to great lengths to ensure the continuation of their MFN status. As Members of this Subcommittee know, the Chinese enjoy a \$34 billion trade surplus with the U.S. While we have never advocated revocation of MFN for China, we do believe that trade leverage can be used as an effective instrument for bringing about progress on human rights in China and Tibet. Therefore, we have in the past supported the efforts of Congress to use the annual renewal of China's MFN status to attach conditions on this renewal, such as calling for the preservation of Tibet's unique culture and religion and supporting negotiations between the Tibetan Government in Exile and the Chinese government on the status of Tibet.

In terms of this year, we favor using renewal of China's MFN status and other means of leverage, such as China's entry into the World Trade Organization, to press for significant improvements in human rights conditions in China and Tibet. We believe it is time that U.S. leverage be used effectively with China. In the last two years, every sanction on the Chinese government has been lifted and yet we haven't seen any positive response from China. Given the fact that the MFN issue has not been handled well by the Administration, we look to the Congress to put forward a trade policy with China that will achieve results. The U.S. has enormous economic leverage with China by which to promote one its most fundamental interests -- namely the observance of human rights and the spread of democratic freedoms -- and we strongly believe that the U.S. should use this leverage.

In addition, without the rule of law, China cannot be counted on as a stable trading partner for the U.S. and therefore it is in the U.S. economic interest to encourage democratic growth in China. I have always urged the leadership of corporate America to not simply lobby on behalf of the Chinese government, but to work with us, with the Congress and with the Administration so that together we can bring about fundamental change in China. Our vision of China is one that is governed by the rule of law and which will not only guarantee human rights for the Tibetan people but also the protection of American business interests. And it is my belief that a China that is governed by a rule of law -- with copyrights and human rights respected -- is in everyone's interest.

Trade and Human Rights

The Chinese Government understands what the Clinton Administration has failed to appreciate -- that trade can be used to promote a country's interest. For example, during this year's session of the United Nations Commission on Human Rights in Geneva, the Chinese not only succeeded in blocking consideration of a mildly-worded resolution on human rights conditions in China but they also put pressure on African and Asian delegations to vote in their favor so that development aid would not be withdrawn. The Chinese have also cleverly manipulated the economic greed of some Western nations by using access to the Chinese market as bargaining tool. It is widely known that during the Commission's debate over the China resolution, a certain European country was offered a lucrative Airbus contract which totally silenced that nation from participating in the debate. It also served to weaken the multilateral effort to win approval of the resolution. So while the Clinton Administration has failed to use trade as means to advocate human

rights, the Chinese have demonstrated that you can link economic and human rights considerations for sinister purposes.

In 1994, after the President reversed his China MFN policy, we were given assurances that the Administration remained committed to helping the Tibetan people and to supporting negotiations between the Dalai Lama and Chinese leaders. However, since that time, the Administration has yet to develop and maintain a policy that will pressure the Chinese to respect the rights of Tibetans. In fact, when President Clinton announced his intention to grant unconditional renewal of MFN for China on May 20th of this year, he failed to even mention Tibet or his concerns over the recent crackdown there in his speech. He also gave no indication of how their policy of "comprehensive engagement" with China, which includes granting unconditional renewal of MFN, is helping to improve the situation in Tibet today. This is deeply disappointing to the Tibetan people and to the many supporters of the Tibetan cause in this country and in substance it differs very little from President Bush's policy of "constructive engagement".

Conclusion

Mr. Chairman, the United States' policy of constructive and comprehensive engagement with China has not brought any relief to the Tibetan people.

It is clearly a difficult time in U.S. - China relations as a result of disagreements over Taiwan, intellectual property rights, weapons proliferation and human rights. In addition, Deng Xiaoping's impending death has added an element of uncertainty in China's internal political situation. But, contrary to what China's apologists would like us to believe, Sino - U.S. relations are at a critical stage not because of a tough U.S. policy but rather because the U.S. has been weak when it comes to sticking to its policy towards China. Because the Chinese have seen the U.S. back down on efforts to promote human rights, they do not believe that they will face a penalty for their repressive actions in Tibet. As a result of the increasing number of Chinese settlers moving into Tibet and the worsening human rights situation in Tibet, the Tibetan cause cannot wait long for the U.S. and the international community to take a strong and principled stand on human rights. We urge the Congress and the Clinton Administration to make clear to the Chinese government that unless there is a clear improvement in its human rights practices, China cannot have the relationship it wants with the United States. We also urge you to take the long view of Sino - U.S. relations and stability in China and to not be guided by self-styled, profit-motivated China specialists.

In order to help bring an end to the egregious human rights violations perpetrated by the Chinese Government against the Tibetan people, we recommend that the United States should adopt the following course of action:

- raise at the highest levels in the Chinese Government your strong concern about the recent crackdown in Tibet. We have kept the Administration fully informed about the deteriorating situation in Tibet and I can say from my personal experience that there are many people in the Administration who are deeply concerned about Tibet. Despite this, the Administration has yet to issue a public statement of concern about the recent escalation of repression in Tibet. We are very concerned that the Administration is dragging its heels while the suffering in Tibet intensifies and we would be very grateful if

Members could put pressure on the State Department to make public what they plan to do about the current situation in Tibet. We also ask Members to express their outrage over recent events in Tibet during debate about China's MFN status on the House floor;

- use economic leverage, whether it be China's Most Favored Nation trading status or China's entry into the World Trade Organization, to pressure China to improve its human rights record in China and Tibet;
- support multilateral efforts calling on the Chinese to allow access for human rights monitors and the press into Tibet, for example by including Tibet on the agenda of the upcoming G7 Summit in Lyon, France;
- establish a Special Envoy on Tibet within the Administration to help streamline U.S. policy towards Tibet, and in particular to help push for a negotiated settlement between His Holiness the Dalai Lama and the Chinese Government;
- raise concerns about the status of and the human right situation in Tibet at every opportunity with the Chinese leadership.

Thank you again, Mr. Chairman, for this opportunity to testify before you today.

STATEMENT BY HIS HOLINESS THE DALAI LAMA TO
THE FOREIGN AFFAIRS COMMITTEE
OF THE FOLKLETINGETS UDENRIGSUDALG,
DENMARK

Hearing on Tibet
Copenhagen, May 13, 1996

Mr. Chairman, Honourable Members of Parliament,

It gives me great pleasure to address you today, at the opening of this hearing on Tibet. This hearing comes at a crucial time. Since the lifting of martial law in May 1990, repression and political persecution have continued in Tibet and have lately reached a new peak. Observance of human rights in Tibet has, sadly, not improved. On the contrary the Chinese government has intensified repression. This has also been documented in reports by international human rights organisations. I am confident that other informed experts invited to this hearing will also corroborate the grim developments in Tibet.

Violations of human rights in Tibet have a distinct character. Such abuses are aimed at Tibetans as a people asserting their own identity and their wish to preserve it. Thus, human rights violations in Tibet are often the result of institutionalised racial and cultural discrimination. If the human rights situation in Tibet is to be improved, the issue of Tibet should be addressed on its merits. It should be seen as distinct from the overall situation in China. Undoubtedly, the Chinese in China suffer from human rights abuses, but these abuses are of an entirely different nature.

In Tibet my people are being marginalised and discriminated against in the face of creeping Sinicization. The destruction of cultural artefacts and traditions coupled with the mass influx of Chinese into Tibet amount to cultural genocide. The very survival of the Tibetans as a distinct people is under constant threat. Similarly, the issues of environmental destruction and contamination, which have serious ramifications beyond the Tibetan plateau, and economic development must be addressed specifically with regard to Tibet. These problems are also different from those faced in China.

It is encouraging to note the growing concern being shown for the human rights situation in Tibet by many governments and NGOs around the world. But human rights' violations, environmental degradation and social unrest in Tibet are only

the symptoms and consequences of a deeper problem. Fundamentally, the issue of Tibet is political. It is an issue of colonial rule: the oppression of Tibet by the People's Republic of China and resistance to that rule by the people of Tibet. This issue can be resolved only through negotiations and not, as China would have it, through force, intimidation, and population transfer.

This hearing is also significant because of the process of change that is taking place in China. It offers a historic opportunity for Denmark and other members of the international community to reassess their policy towards China, in order both to influence and to respond to the changes that are taking place in that country. With regard to Tibet I am convinced that the next few years will be crucial in bringing about honest negotiations between us and the Chinese government. Such negotiations are the only way to promote a peaceful and comprehensive resolution of the Tibetan question.

It is undoubtedly in the interest of the Chinese people that the present totalitarian one-party state gives way to a democratic system in which fundamental human rights and freedoms are protected and promoted. The people of China have clearly manifested their desire for human rights, democracy and the rule of law in successive movements starting in 1979 with the 'Democracy Wall' and culminating in the great popular movement of the spring of 1989.

China needs human rights, democracy and the rule of law. These values are the foundation of a free and dynamic society. They are also the source of true peace and stability. A society upholding such values will offer far greater potential and security for trade and investment. A democratic China is thus also in the interest of the international community in general and of Asia in particular. Therefore, every effort should be made not only to integrate China into the world economy, but also to encourage her to enter the mainstream of global democracy. Nevertheless, freedom and democracy in China can be brought about only by the Chinese themselves and not by anyone else. This is why the brave and dedicated members of the Chinese democracy movement deserve our encouragement and support.

Democracy in China will have important consequences for Tibet. Many of the leaders of the Chinese democracy movement recognise that Tibetans have been ill treated by Beijing and believe that such injustice should be redressed. Many of them openly state that Tibetans should be granted the opportunity to express and implement their right to self-determination.

In the final analysis it is for the Tibetan and the Chinese peoples themselves to find a just and peaceful resolution to the Tibetan problem. Therefore, in our struggle for freedom and justice I have always tried to pursue a path of

nonviolence in order to ensure that a relationship based on mutual respect, friendship and genuine good neighbourliness can be sustained between our two peoples in the future. For centuries the Tibetan and the Chinese peoples have lived side by side. In future, too, we will have no alternative but to live as neighbours. I have, therefore, always attached great importance to our relationship. In this spirit I have sought to reach out to our Chinese brothers and sisters in the United States, Europe, Asia and Australia.

Furthermore, in my efforts to seek a negotiated solution to our problem, I have refrained from asking for the complete independence of Tibet. Historically and according to international law Tibet is an independent country under Chinese occupation. However, over the past fifteen years I have adopted a "middle-way" approach of reconciliation and compromise in the pursuit of a peaceful and negotiated resolution of the Tibetan issue. While it is the overwhelming desire of the Tibetan people to regain their national independence, I have repeatedly and publicly stated that I am willing to enter into negotiations on the basis of an agenda that does not include the independence. The continued occupation of Tibet poses an increasing threat to the very existence of a distinct Tibetan national and cultural identity. Therefore, I consider that my primary responsibility is to take whatever steps I must to save my people and their unique cultural heritage from total annihilation.

Moreover, I believe that it is more important to look forward to the future than to dwell in the past. Theoretically speaking it is not impossible that the six million Tibetans could benefit from joining the one billion Chinese of their own free will, if a relationship based on equality, mutual benefit and mutual respect could be established. But, if China wants Tibet to stay with her, it is up to China to create the necessary conditions. The reality today is that Tibet is an occupied country under colonial rule. This is the essential issue which must be addressed and resolved through negotiations.

Unfortunately, the Chinese government has yet to accept any of the proposals and initiatives we have made over the years and has yet to enter into any substantive negotiations with us. Meanwhile, they continue to flood Tibet with Chinese immigrants, effectively reducing Tibetans to an insignificant minority in their own land. In fact some of my friends call this China's 'Final Solution' to the Tibetan problem.

Tibet - an ancient nation with a unique culture and civilization - is disappearing fast. In endeavouring to protect my nation from this catastrophe, I have always sought to be guided by realism, moderation and patience. I have tried in every way I know to find some mutually acceptable solution in the spirit of reconciliation and compromise. However, it has now become clear that our

efforts alone are not sufficient to bring the Chinese government to the negotiating table. This sad state of affairs compels me to appeal to your Government and the international community for urgent intervention and action on behalf of my people.

In the first place, the true nature of China's rule over Tibet must be understood. China's leaders have for decades, even before the Communist revolution, propagated a false and self-serving version of the history of Tibet and of Tibet-China relations. Tibet's historical independence and its rich cultural and spiritual tradition have been entirely distorted to justify China's invasion, occupation and suppression of Tibet. The international community, and even the Chinese people, still does not fully comprehend the extent of the destruction, suffering and injustice experienced by the Tibetans under Chinese rule. Today the Chinese people, especially the intellectuals, closely follow what happens outside China. The Chinese authorities are no longer able to isolate the population from outside sources of information. It is therefore immensely important that governments and non-governmental organisations in democratic countries discuss all aspects of the Tibetan issue, from the historical relations between Tibet and China to the current violations of human rights, openly and honestly.

Secondly, China's leaders must be made to realise that the question of Tibet will cause ever increasing problems to China domestically and internationally, unless it is resolved to the satisfaction of both China and Tibet through earnest negotiations, in which all issues can be discussed with honesty and candour.

Thirdly, we need governments of democratic countries to continue to urge the Chinese authorities to respect human rights in Tibet and to enter into serious negotiations with us. We appeal for persistent and concerted efforts by the international community in bringing about direct and meaningful negotiations.

Fourthly, in their contacts with leaders and members of the democratic movement in China and in exile, governments of democratic countries should make clear their expectations with regard to China's future conduct towards Tibet. Now is the time for Chinese democrats to make commitments in this respect.

On our part, we Tibetans will continue our nonviolent struggle for freedom. My people are calling for an intensification of the struggle, and I believe they will put this into effect. But we will resist the use of violence as an expression of the desperation which many Tibetans feel. As long as I lead our freedom struggle, there will be no deviation from the path of nonviolence. However, my people need hope and encouragement. They will find this in the support of the

international community, if they can see effective and concerted action on the issue of Tibet.

I remain committed to negotiations with China. I have made proposals in this regard, which are contained in my Five Point Peace Plan (1987) and the proposal I made at the European Parliament in Strasbourg in 1988. These proposals were very well received internationally, and they can still form a rational basis for negotiations. But since China has chosen to reject them, I have stated, and I reiterate today, our willingness to start negotiations with China without any preconditions. I call on all democratic countries of the world to intensify their support for this position. And I extend to China's present and future leaders an invitation to open negotiations as soon as possible in the interests of both the Tibetan and Chinese peoples.

Chairman CRANE. Thank you, Mr. Gyari.

Chairman CRANE. We thank you all for your testimony, and all written statements will be made a part of the permanent record as well. Thank you for appearing today.

Our final panel includes Dianne Sullivan, Daniel O'Flaherty, Eugene Milosh, and Martin Duggan.

If you could each try to summarize in 5 minutes, all printed statements will be made part of the permanent record, and ladies first.

STATEMENT OF M. DIANNE SULLIVAN, DIRECTOR OF TRADE POLICY, NATIONAL ASSOCIATION OF MANUFACTURERS

Ms. SULLIVAN. Mr. Chairman, my name is Dianne Sullivan, and I am the director of trade policy for the National Association of Manufacturers. It is my great pleasure to be here, on this side of the table, addressing the Trade Subcommittee.

The China issue always draws a debate, and this year is no exception. The NAM is glad for the opportunity to express its views to you today.

The National Association of Manufacturers supports the extension of MFN status to China. Indeed, the NAM would like to see an end to these annual debates and the granting of permanent MFN status to China.

I am here because U.S. industry believes it is important to describe the complexity of our economic and commercial relations with China and the stake that U.S. business has in this market.

To that end, the NAM conducted a survey, the results of which have just been released in a report subtitled, "MFN: The Need for Normal Commercial Relations." This report is being circulated on the Hill today, and the NAM believes you will find it useful.

This report gives texture and detail to two specific points. Number one, trade with China is important to the U.S. economy, and number two, American business is a positive force in China.

As you well know, we live in a globalized economy today, and much of our potential for growth lies outside of our borders. In 1970, the value of trade equalled just 13 percent of our gross domestic product. That figure exceeded 30 percent in 1995 and is continuing to grow.

Exports themselves support 15 million workers in this country. Exports are critical to our economy and matter to the average American worker and average American company far more than most people realize.

Two recent reports produced jointly by the research arm of the NAM and the Institute for International Economics have shown that wages are on average 15 percent higher, benefit levels are 37 percent higher, productivity is 40 percent higher, companies' survival rates are 10 percent better, and job growth is 17 to 18 percent higher in exporting plants. This applies to small and medium-size companies as much as it does to the Motorolas, Caterpillars, and Boeings of this country.

For example, on page 13 of our report, you will see a survey entry from Clarcor, Incorporated in Rockford, Illinois. This company, with 2,400 employees and 4 PRC nationals employed in China, manufactures heavy-duty engine filters for heavy equipment

and responded positively that: "Working with the Chinese has been productive. They are dependable trading partners who have lived up to all their commitments in a timely fashion."

The importance of importing should not be ignored, either. Imports give U.S. consumers broad and varied exposure to a wide variety of reasonably priced goods and continually prompt our entrepreneurs to keep up competitively.

Nowhere are our trading opportunities better than they are currently in the Asian Pacific region, and within the region, the greatest potential obviously lies in China. The Chinese economy is growing at a rate of 8 to 10 percent annually, and economic output is expected to reach \$10 trillion by early next century.

In the last 5 years, U.S. exports to China have grown annually on average by 22 percent, or two and a half times the total U.S. export growth rate. Granted, U.S. exports to China, at \$11.7 billion in 1995, represented less than 9 percent of China's total exports, but that does not suggest that we should therefore throw up our hands and walk away from China. Instead, we should be poised to take advantage of increasing consumer demand and should be engaged with China to better push for more and more market access.

It is true that our trade with China is currently out of balance, but authoritative analysis has shown that the deficit figure is overstated, perhaps by as much as 50 percent. That figure does not necessarily reflect the extent to which an economy is closed. For example, it is interesting to note that China has attracted more foreign investment in the last 5 years than Japan has since World War II. In addition, the deficit number by itself fails to demonstrate that there has been a major production shift throughout Asia.

Not only is trade with China in the U.S. national interest, but American companies contribute to improved human conditions in China. Our report contains many examples of this. And if you will take a look at this to see that U.S. company presence in China has contributed to the development through employment and otherwise, of a whole new enlightened and consumer-oriented Chinese middle class, and we hope that our continued presence there will ensure its existence.

To close, when we are speaking of restricting MFN, what we are really talking about is unilateral sanctioning. Unilateral sanctions cause difficulties and instability for U.S. business and our workers, not to mention the Chinese workers employed in China by our companies. Any restrictions are sure to bring retaliation and will ensure solely to our competitors' benefit. Rather than shooting ourselves in the foot, we should aim to develop more areas of common interest with the Chinese and continue through varying means to support and develop stable bilateral commercial ties.

Mr. Chairman, international trade is here to stay. So is development in China. It is our responsibility to remain engaged with the Chinese on a consistent and stable basis.

Thank you for this opportunity to testify.

[The prepared statement and attachments follow:]

Testimony of
M. Dianne Sullivan
Director of Trade Policy
The National Association of Manufacturers
June 11, 1996

Mr. Chairman. My name is Dianne Sullivan, and I am the Director of Trade Policy for the National Association of Manufacturers (NAM). I would like to thank you for organizing this important and timely hearing and for giving us this opportunity to express our views.

The NAM supports the extension of most-favored-nation status ("MFN") to China; indeed, the NAM would like to see an end to the annual debates over this matter and the granting of permanent MFN status to China. U.S. industry believes it is important to understand the complexity of our economic and commercial relations with China and the stake that U.S. business has in this market.

To that end, the NAM has just released a report, subtitled *MFN: The Need for Normal Commercial Relations*. This report is based on the results of a member company survey and gives texture and details to two specific points:

FIRST, trade with China is important to the U.S. economy, and

SECOND, American business is a positive force in China.

INTERNATIONAL TRADE: THE ENGINE OF JOBS AND STABILITY

TRADE GENERALLY

We live in a globalized economy today. There is no question that business is an international affair. Where once our economy was largely self-contained, it is now interdependent with the economies of the rest of the world.

In this post-Cold War era, U.S. national security and economic security have become distinctly intertwined. Trade, while it has not replaced other foreign policy considerations, has certainly become, in its own right, a major foreign policy issue.

Not only would it be difficult, practically speaking, to disengage from the global economy, but it would be foolish. Much of our potential for economic growth lies outside our borders. The United States comprises only 4 percent of the world's population and we are at near-zero population growth. Future opportunities are really coming, in large part, from the other 96 percent of the world, and we must continue to reach for them if we intend to preserve and expand our world leadership position. (See Chart A.)

Statistically, it is clear that international trade is an increasingly integral part of the U.S. economy. In 1970, the value of trade equaled just 13 percent of the U.S. gross domestic product (GDP). That figure exceeded 30 percent in 1995, and is continuing to grow. Imports have given U.S. consumers broad and varied exposure to a wide array of reasonably priced goods, and continually prompt our innovators to keep up competitively. Exports support 15 million workers in this country. Millions of other workers, whose jobs are not directly or indirectly supporting exports, also benefit from working for companies whose success and fitness have been noticeably improved by retooling to export. In fact, two recent reports, *Why Exports Really Matter!* (1995) and *Why Exports Matter: More!* (1996), document that exporting matters to the average American worker and average American company far more than most people realize, because:

- wages in export plants are on average, 15 percent better;
- benefit levels are 37 percent higher;
- productivity is 40 percent greater;
- exporting improves company survival rates by 10 percent; and
- job growth is 17-18 percent greater.

According to the U.S. Commerce Department, every billion dollars of exports supports over 15,000 jobs. Expanding trade has been, and will continue to be, critical to creating good, high-wage jobs here at home.

TRADE WITH CHINA

Nowhere are our trading opportunities greater than they are currently in the Asia-Pacific region. The change in this region in the last 50 years is extraordinary. Asian nations have transformed themselves into some of the most dynamic economies anywhere in the world, and their future potential is enormous. Within the region, the greatest potential obviously lies in China, a country encompassing more than one fifth of the world's population. (See Chart B.)

China's economy is growing at an annual rate of 8-10 percent, and economic output is expected to reach \$10 trillion by early next century. U.S. exports to China in 1995, at \$11.7 billion, represented less than 9 percent of China's total \$132 billion in imports, so there is definitely room for growth. As China's consumption ability expands, the United States should be there to fill the demand.

In fact, in the last five years, U.S. exports to China have grown annually, on average by 22 percent, or two-and-a-half times the total U.S. export growth rate. Given China's size, this country represents one of the United States' fastest growing, elastic export markets — U.S. export sales to China already out-pace U.S. export sales to France, to Italy, to Switzerland and to Australia. Of our top principle exports to China, most have been consistently growing. (See Chart C.) Additionally, increasing export rates can be compared to decreasing rates of import acceleration, suggesting positive market development, increasingly available investment monies and growing consumer demand in China. (See Chart D.) Chinese infrastructure needs, estimated by the World Bank to be nearly \$750 billion over the next decade, must be supplied from overseas. The United States needs to be poised to win contracts to supply such needs.

It is true that our trade with China is currently out of balance. Whether, and to what extent, a bilateral trade deficit is damaging is debatable — and would be better addressed in another forum. Suffice it to say, trade figures should be examined carefully and used in proper context if they are to be meaningfully applied. While China does have significant trade barriers to U.S. exports which need to be addressed, it is important to recognize that trade deficit figures do not necessarily reflect the extent to which an economy is closed. For example, it is interesting to note that China has attracted more foreign investment in the last five years than Japan has since World War II.

Authoritative analysis has also shown that the U.S./China deficit figure as a number is overstated, perhaps by as much as 50 percent. Many of our exports to Hong Kong are re-exported to China, but are only recorded statistically as exports to Hong Kong. In contrast, imports brought through Hong Kong are fully ascribed to China, even though perhaps a quarter of the value of those goods goes to the Hong Kong "re-exporters." Import numbers also fail to exclude the value of foreign inputs used in Chinese production, which would reduce the value of U.S. imports of Chinese goods substantially.

The bilateral trade deficit figure also fails to demonstrate that there has been a major shift in production throughout Asia. From 1987-1995, as investment has shifted, the combined U.S. deficit with Taiwan, Hong Kong, South Korea and Singapore declined from \$34 billion to approximately \$6 billion, while the deficit with China climbed from \$3 billion to \$35 billion. (See Chart E.)

Looking at the trade deficit figure in a vacuum makes the trade imbalance look much more ominous than perhaps it is. This is not to say that Chinese policies and practices which block or hinder access to U.S. products must not be dealt with in a forceful and constructive manner under U.S. trade laws — they should be. U.S. exports to China need to increase.

U.S. MANUFACTURERS ARE ACTIVELY INVOLVED IN TRADE WITH CHINA

There is not one state in the United States that is not exporting goods to China. Cumulatively, these exports have increased by more than 34 percent in the last two years. Consumers in every state also benefit from increased selection and affordable prices of goods imported from China.

To provide real examples of U.S. manufacturers' involvement in the China market, the NAM conducted a survey of its member companies, similar to one done two years ago. Evidence of progressive trade with China is apparent in our 1996 manufacturer survey

returns. A whole host of new respondents who had not participated in the 1994 NAM China survey and trade report (entitled: *The United States and China; Valuing the Relationship*) submitted statements demonstrating that large and small manufacturers alike continue to be — and are becoming — interested in China as a trading partner. More than 65 percent of our repeat respondents have increased their presence in China in the past several years, some quite substantially, as documented in the manufacturers' table included in our report.

Not only is trade with China in the U.S. national interest, but, even more than in 1994, it is the position of the NAM that American companies contribute to improved human conditions in China. Through the products, employment opportunities, better employment benefits packages, education and training, exposure to sound business practices and values and outlook that U.S. companies offer their Chinese employees, a whole new enlightened and consumer-oriented Chinese middle class is developing. This trend is almost irreversible, and our presence in China will ensure that it becomes so.

CONCLUSION

For the above reasons, the NAM supports President Clinton's decision, announced Monday, May 20, 1996, and formally communicated to the U.S. Congress on May 31, 1996, to extend MFN status to China for another year. In fact, the NAM would support permanent extension of MFN to China if that were possible today.

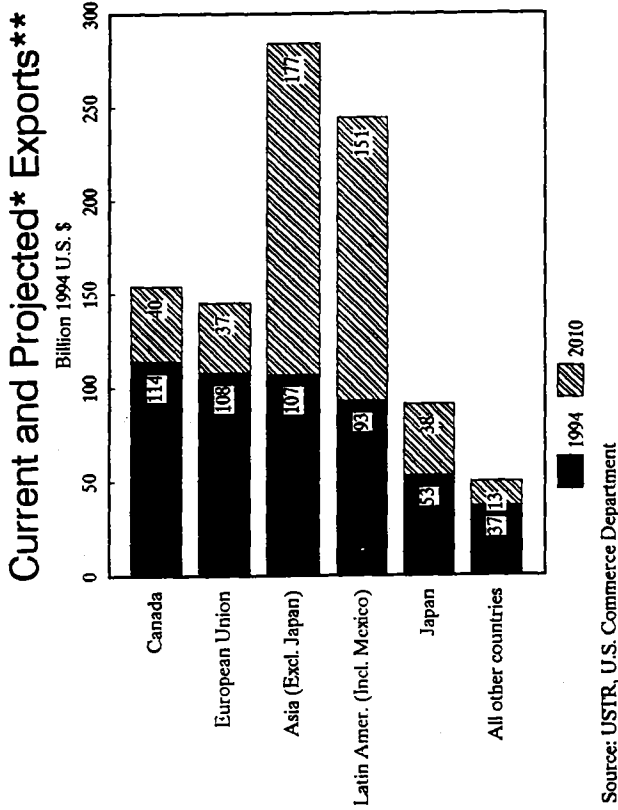
The NAM believes that those who advocate restricting or revoking MFN for China seem to lose sight of the importance of international trade to the United States and the probable consequences of restrictions. Exporting creates increased operating revenue for business, which translates into increased production, efficiency, research and development, and, of course, jobs.

Any restriction of MFN is sure to bring retaliation. Disruption in the trade arena, while necessary at times, creates difficulties and instability for U.S. business and our workers, not to mention the Chinese workers employed in China by our companies. U.S. investors deserve a stable, predictable commercial environment for the investments they have already made and for the future business they are trying to develop. So does the Chinese worker, as he or she is beginning to embrace newly understood opportunities, freedoms and successes.

As for the many Chinese policies and practices with which the United States takes issue, as stated by the President on May 20, the extension of MFN is not a blanket referendum on all China policies. However, engagement and stable commercial relations provide the United States with a platform from which to exercise some influence over Chinese development in trade and other areas.

International trade is here to stay. So is development in China. It is our responsibility to ourselves and to the world to remain engaged -- to promote market reforms, democratic principles and personal freedoms in China; and to promote jobs, economic strength and competitiveness here at home. U.S. manufacturers play a strong role in this capacity, and they should be encouraged to continue to do so, through the maintenance by both China and the United States, of normal, stable bilateral commercial relations.

CHART A

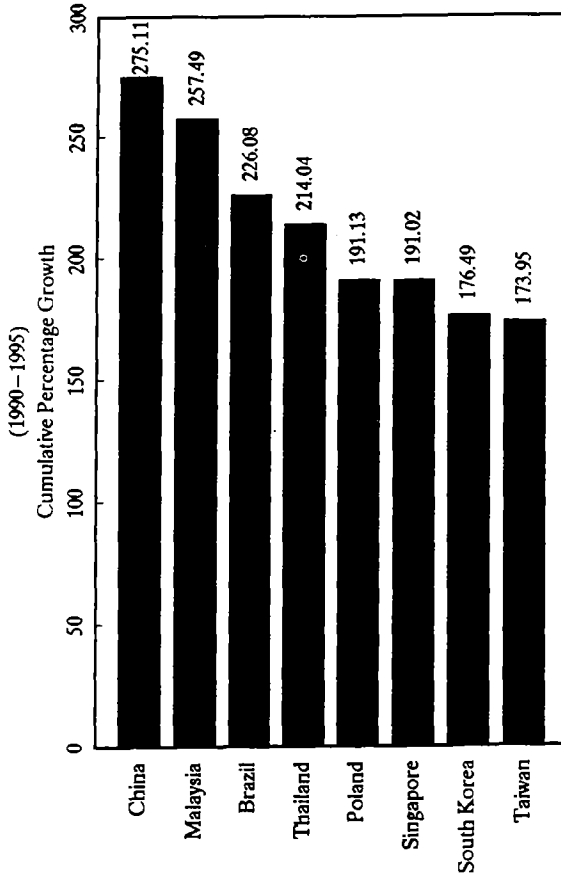


*Based on U.S. Government estimates of growth in foreign export markets and the assumption that the U.S. share of those markets remains constant.

** Merchandise exports were \$512 billion in 1994. They are projected to rise to \$968 billion in 2010 in constant 1994 dollars and \$1,183 billion in current dollars, based on historic trends in export price inflation.

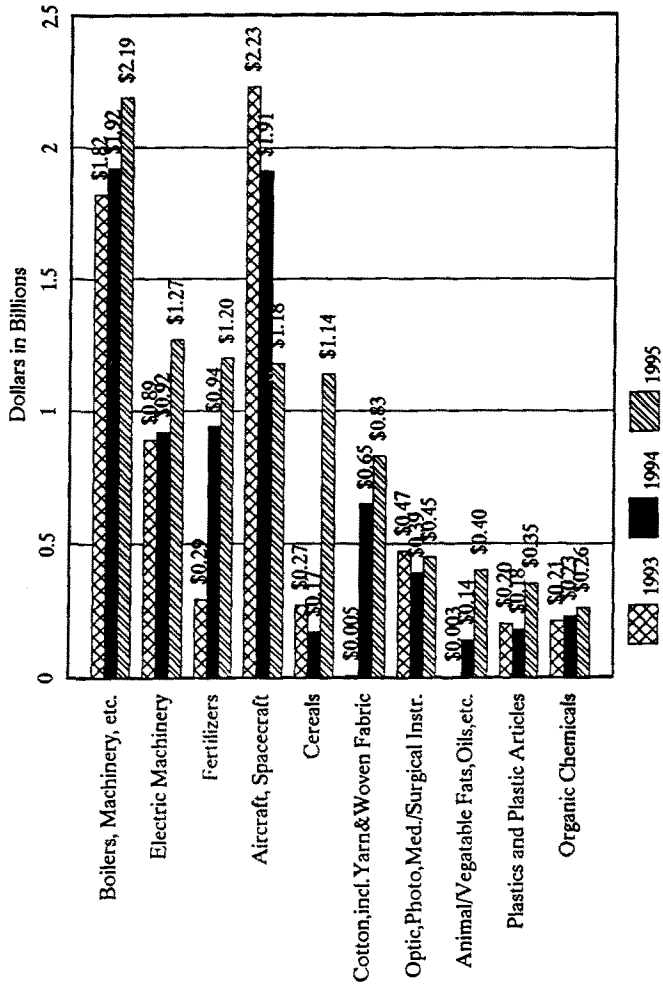
CHART B

Fastest Growing U.S. Export Markets



Source: U.S. Commerce Department, Brookings Institute;
China is an adjusted amount reflecting true export values.

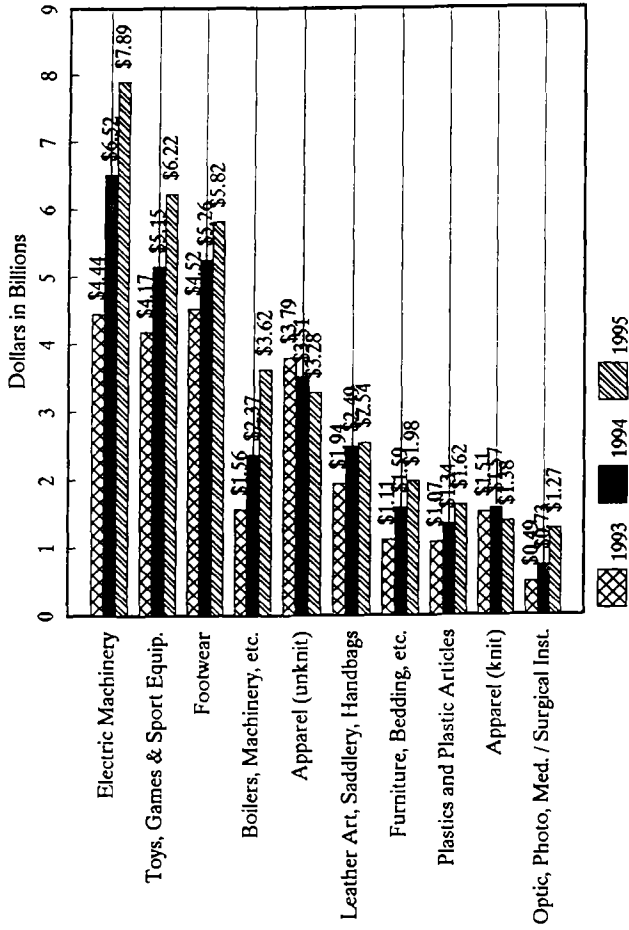
Principal U.S. Exports to China



Source: U.S. Commerce Department

CHART D

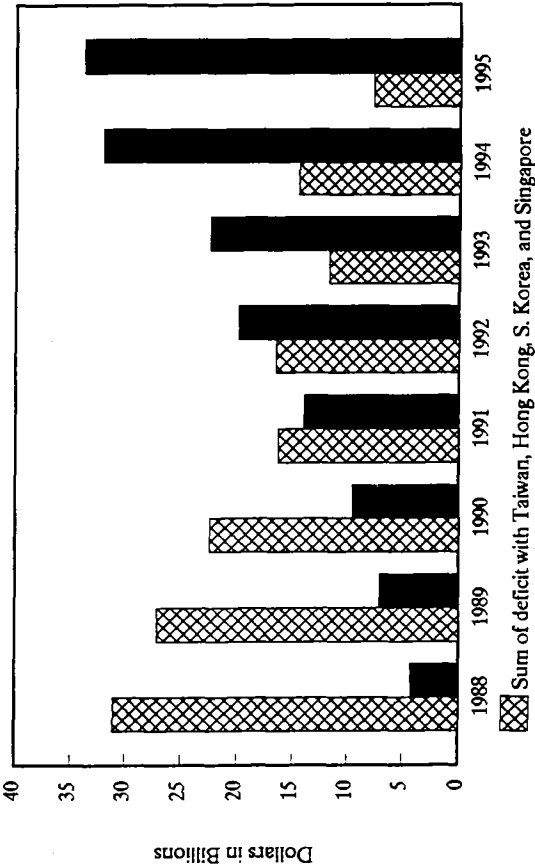
Principal U.S. Imports From China



Source: U.S. Commerce Department

CHART E

U.S. Trade Deficit With China Versus Sum of Other Asian Countries



Source: U.S. Commerce Department

Chairman CRANE. Thank you, Dianne.

Chairman CRANE. Mr. O'Flaherty.

**STATEMENT OF DANIEL O'FLAHERTY, VICE PRESIDENT,
NATIONAL FOREIGN TRADE COUNCIL, INC.**

Mr. O'FLAHERTY. Thank you very much, Mr. Chairman.

I am Daniel O'Flaherty, vice president of the National Foreign Trade Council, which is an association of more than 500 American companies engaged in international trade and investment.

I am here this afternoon to express our strong support for unconditional most-favored-nation treatment for China and to express our concurrence with the aspirations that were implicit in the testimony of the previous panel. On ends we do not disagree; on means, we do disagree.

In fact, we think it is time to consider giving China most-favored-nation status on a permanent basis and move beyond the debate that we are annually engaged in on this issue. To move in the opposite direction is not a realistic option for the United States. Rupturing commercial relations with China, with the inevitable costs to the U.S. economy and our future relationship with the Asia Pacific region, is precisely the wrong way to address the numerous tensions and issues between the United States and China. Revoking or conditioning MFN would eliminate the leverage that the United States does have on China at a very high cost to U.S. employers, workers and consumers. Such action is clearly not in our National interest, and on this score, we echo and concur with the many expressions of that opinion which you have already heard.

There are four aspects of our relations with China which I would urge the Subcommittee to take under serious consideration.

The first is simply that the annual debate in the United States about most-favored-nation treatment for China has become increasingly unproductive and ineffective.

Second, this debate no longer is merely about United States-China relations, but involves broader regional, economic, political and strategic interests of central importance to the United States.

Third, U.S. economic interests in China itself are enormous and growing rapidly, having significant implications for future American prosperity.

Finally, it is crucial that the United States take a longer term view of relations with China that recognizes the role of private business in bringing China into the world trading system and liberalizing Chinese society.

Certainly, there are levers other than most-favored-nation status that are effective in influencing the way in which that development takes place. Mr. Jendrzeczyk of Human Rights Watch mentioned several of them in his testimony just now. They include negotiations for Chinese accession to the World Trade Organization, and they include the recent action of the Export-Import Bank in denying credits for American companies to participate in Three Gorges Dam. We regretted that decision, but it certainly is an effort to affect a segment of Chinese behavior.

In closing, I would like to comment on an argument which a prior witness advanced this morning, that we should not be too concerned about the impact of withdrawal of MFN for China on

Hong Kong, on the basis that it is unlikely that the resolution of disapproval will in fact pass.

Surely, making empty threats makes them less credible, and in this case, it seems to me unproductive to debate the withdrawal of MFN, which is the commercial equivalent of withdrawing diplomatic relations, while publicly arguing at the same time that the consequences do not matter because it will not happen.

It is time that we recognize that just as the threat of massive nuclear retaliation against the Soviet Union ultimately lost its credibility, so too has the threat of revoking China's MFN status. The reason is the same—retaliation would impose unacceptable costs on the United States with little chance of affecting Chinese behavior. To continue to make the threat and to conduct an annual debate about carrying it out can only undercut the real impact that the United States can have with the interdependence of our economic relations with China.

I thank you for the opportunity to testify.

[The prepared statement follows:]

TESTIMONY OF DANIEL O'FLAHERTY
VICE PRESIDENT OF THE
NATIONAL FOREIGN TRADE COUNCIL, INC.

BEFORE THE
COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON TRADE

JUNE 11, 1996

Mr. Chairman, Members of the Subcommittee on Trade I am Daniel O'Flaherty, Vice President of the National Foreign Trade Council, an association of more than 500 U.S. companies engaged in international trade and investment. I am very pleased to testify today on the vitally important topic of the impact of Most-Favored-Nation (MFN) on U.S.-China economic relations. The NFTC's membership is drawn from all sectors of the U.S. economy, including basic manufacturing, financial services, energy, high technology and agricultural, and, therefore, represents the broad range of U.S. commerce with China.

The National Foreign Trade Council strongly supports continuation of unconditional most-favored-nation status with China. In fact, we believe it is time to consider granting permanent MFN to China. To move in the opposite direction by revoking MFN is not a realistic option for the United States. We are convinced that rupturing commercial relations with China, with the inevitable costs to the U.S. economy and our future relationship with the Asia-Pacific region, is precisely the wrong way to address the numerous tensions and issues between the United States and China. Revoking or conditioning MFN would eliminate the leverage that the U.S. does have on China at a very high cost to U.S. employers and workers. Such action is clearly not in our national interest.

As a business community we would like to see a more stable and predictable relationship with China that encourages greater individual liberty and adherence to international norms of behavior in all areas, including commercial practice. There are four aspects of our relations with China which I urge your subcommittees to take under serious consideration:

- (1) The annual debate in the U.S. about MFN for China has become increasingly unproductive and ineffective;
- (2) This debate is no longer merely about U.S.-China relations, but involves broader regional economic, political and strategic interests of central importance to the U.S.;
- (3) U.S. economic interests in China itself are enormous and growing rapidly, having significant implications for future American prosperity; and
- (4) It is crucial that the U.S. take a longer-term view of relations with China that recognizes the role of private business in bringing China into the world trading system and liberalizing Chinese society

I would like to elaborate briefly on these four basic points.

1. The annual debate in the U.S. about MFN for China has become increasingly unproductive and ineffective.

For seven years the Congress has conducted an annual debate about China's MFN status under the Jackson-Vanik amendment to the Trade Act of 1974. The result has been that the entire U.S.-China relationship has been challenged each year on the narrow basis of bilateral trade, and normal commercial relationships have been held hostage to a wide array of non-commercial concerns. Each year the business community has stressed that MFN is the normal tariff standard for conducting trade and in no sense a "favor." It is in fact the basic building block of our global

trading system and is critical to keeping markets open for the United States, which is the world's largest trader. There are only six nations to whom the U.S. does not extend MFN -- Afghanistan, Cambodia, Cuba, Laos, North Korea and Vietnam -- and we are in the process now of granting MFN to one of them, namely, Cambodia. To revoke MFN for China -- one of the world's great emerging powers -- would be the commercial equivalent of suspending diplomatic relations. We cannot build a lasting commercial relationship based on Smoot-Hawley tariffs.

It is time that we recognize that just as the threat of massive nuclear retaliation against the Soviet Union ultimately lost its credibility, so too has the threat of revoking China's MFN status. The reason is the same; retaliation would impose unacceptable costs on the U.S. with little chance of affecting Chinese behavior. To continue to make the threat and to conduct an annual debate about carrying it out can only undercut the very real impact which the U.S. can have through the interdependence of our economic relations with China. We should, instead, pursue policies that encourage China to be a more responsible member of the international community.

We are convinced that there is far more to be gained through a policy of long-term pragmatic engagement that moves toward permanent MFN within a structure of enforceable bilateral and multilateral agreements. China's eventual entry into the World Trade Organization (WTO) under a commercially acceptable protocol is essential in this regard. This is precisely where we should be focusing our efforts in establishing a more sound commercial relationship. We also should vigorously use all the trade tools we have available under U.S. law to address major concerns and problems in our trade and investment relationship with China. Our current Section 301 dispute with China over its enforcement of the 1995 intellectual property rights agreement is one example of this approach, and the NFTC endorses the Administration's efforts to ensure that China complies with the terms of negotiated trade agreements.

The NFTC believes that we should make clear to the Chinese leadership that the United States is willing to grant permanent MFN to China and to stop using what is essentially a cold war trade law. In return, China should demonstrate that it is willing to live in the post-cold war global economy based on unequivocal commitment to adhere to bilateral trade agreements, full acceptance of multilateral trade rules and agreements under the WTO, and provision of equitable market access to U.S. exporters. It is time to move beyond past approaches and to implement new ones which would promote fundamental U.S. economic interests. Attempting to use a cold war trade law as the vehicle for addressing the entire U.S.-China relationship is not working and has outlived its usefulness. New, more positive approaches are called for, which will lead to improved and normalized relations between the United States and China.

2. The U.S. cannot pursue its vital economic and other interests in the Asia-Pacific region without improving commercial relations with China.

One result of China's dramatic economic expansion of the past decade has been the transformation of its commercial relations with its neighbors, most especially Japan, Taiwan, South Korea and the ASEAN nations. It has become part of the conventional wisdom that Asia presents the greatest opportunity for the expansion of U.S. exports in the next decade and beyond. U.S. trade with Asia is now more than double our trade with Europe and is growing rapidly. According to the USTR, Asia, excluding Japan, will be our largest export market by 2010, with exports estimated to reach \$284 billion. Asia is the fastest-growing region in the world, accounting for almost 30% of world GDP, and China leads all other countries in its rate of economic growth.

The commercial importance of the region goes beyond the simple growth statistics. It is, in fact, not possible to disentangle U.S. commerce with China from that with the region. If U.S. companies were locked out of the Chinese market as a result of retaliation, they would also be excluded from major business opportunities in other Asian countries whose economies are increasingly intertwined with China's market. U.S. companies would be unable to take part in joint ventures and indirect trade with China through countries such as Singapore, Taiwan, Malaysia, South Korea and, of course Hong Kong.

It is vital to the U.S. economy to be able to participate fully in the growth of the Asia-

Pacific market. It is also a key factor in achieving other U.S. objectives in the region, such as encouraging and sustaining free market democracies and maintaining strategic stability in the region. It is worth noting that even the most pro-democratic forces in Hong-Kong have long supported continued MFN because they fully realize the destabilizing impact its elimination would have on Hong Kong as it approaches the 1997 date for returning to Chinese sovereignty. The development of the Asia-Pacific Economic Cooperation (APEC) forum also bears witness to the importance that the countries of the region place on continued U.S. engagement through normalized and expanding commercial relationships.

3. The economic stakes for the U.S. in China itself are enormous.

Revocation of MFN would certainly lead to Chinese retaliation against the \$12 billion in annual U.S. exports of goods and services to China. According to the International Business and Research Corporation, revocation of MFN would cost U.S. consumers \$27 to \$29 billion a year and put 190,000 U.S. jobs at risk by curtailing \$13.6 billion of U.S. exports to China. We should be under no illusion that China's leadership would not be willing -- or able -- to subordinate China's increasing prosperity and economic growth to their perceived need to retaliate strongly against aggressive U.S. action. And trade would not be the only casualty. A trade war of such a magnitude would also undoubtedly retaliate against U.S. investors. The recent Chinese purchase of Airbus aircraft is a very good example of the reaction we should expect.

U.S. exports to China have doubled since 1990 and grew 27 percent in 1995. Revoking MFN would cost many thousands of high-wage, technology-related jobs which are central to U.S. economic growth. The consequences of revoking MFN could not be reversed because our companies would be quickly supplanted by our trading competitors who would not soon be displaced, if ever.

In addition to the direct economic benefits U.S. companies gain by their China business, they are helping to improve the lives of many Chinese people. This takes place through training senior level Chinese managers and engineers in U.S. company management practices and technical skills, and scholarships provided for Chinese students to study in the United States. U.S. companies are actively engaged in cultural exchange programs, many of which are at the local levels in the communities in which they operate.

Revocation of MFN would seriously set back, if not destroy, all of these positive economic and other benefits that U.S. companies are helping to bring about by virtue of their business with China. Such action is just not a realistic or effective option for the United States. It would radically destabilize a relationship which calls for stable management and effective diplomacy.

4. U.S. business has an important role to play in liberalizing Chinese society and integrating it into the world trading system.

Just as commerce does not provide the sole leverage to alter Chinese behavior, the private sector cannot reasonably expect to transform a vast nation with an ancient culture. The expanding market economy has, however, had a remarkable impact on China. U.S.-Chinese economic ties have played a very important role in that transformation. These changes in China are irreversible. As a result, there has been a dramatic increase in the standard of living for China's citizens, and access to information has greatly reduced the effectiveness of state control. While increased economic freedom has obviously not yet been translated into political freedom, it is an essential precondition for greater pluralism. This has certainly been the successful path that South Korea and Taiwan have pursued. Conversely, there is no evidence that attempting to isolate China would lead to a more rapid expansion of civil and political liberty.

The vitality and explosive growth of the Chinese economy are, in fact, matters of concern to many in China's leadership precisely for these reasons. The U.S. should be on the side of the Chinese population, which benefits from the steady expansion of personal opportunity and which welcomes the participation of American companies in improving their lot.

In conclusion, the NFTC believes it's time to develop a normal commercial relationship with China by extending permanent MFN and by bringing China into the WTO on a solid commercial basis. It is in our overall national interest to do so, and it is also in the best interest of the Chinese people. Moving in the opposite direction would isolate the United States, threaten many thousands of U.S. export-related jobs and set back U.S. relations with not only China but with many other countries. We would not achieve any of our major policy objectives with China, whether it is in the human rights, non-proliferation or trade areas.

President Clinton and the Congressional leadership recognize that it is in our national interest to continue MFN for China. We urge the entire Congress to also recognize that revoking or conditioning MFN is part of the problem, not part of the solution, in addressing our various concerns with China.

Thank you for the opportunity to testify.

Chairman CRANE. Thank you, Mr. O'Flaherty.
Chairman CRANE. Mr. Milosh.

STATEMENT OF EUGENE MILOSH, PRESIDENT, AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS NEW YORK, NY

Mr. MILOSH. Thank you, Mr. Chairman. I am Gene Milosh with the American Association of Exporters and Importers. We are an association of some 1,200 U.S. firms, and we are close observers of U.S. trade laws and regulations, especially Customs regulations. Some 30 percent of our members are multinationals, with the other 70 percent in the medium to small size range.

Because a large portion of AAEI's membership engages in United States-China trade, the Association strongly supports renewal of China's MFN status for the coming year. Renewal would ensure American companies access for another year to the enormous economic opportunities being created as China opens its markets to U.S. and other foreign goods.

Additionally, failure to renew China's MFN status would cause a reduction in the supply or an increase in the cost of many basic consumer products purchased by Americans and industrial products with components from China.

We strongly support the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. As we testified in the past, we believe that the threat of terminating China's MFN status is neither an appropriate tool for addressing human rights concerns nor an effective one. We urge the members of the Trade Subcommittee to take a strong stand in ensuring that human rights issues are kept separate from U.S. trade relations with China, as is the case with almost all of our other trading partners.

As stated, AAEI supports the President's efforts to focus attention on human rights concerns in China. However, we do not believe that terminating China's MFN status will contribute to this worthy objective. Specific trade disputes may be resolved by utilizing more appropriate, narrower trade remedies and multilateral fora. AAEI supports initiatives by some in China to grant China MFN status on a more permanent basis.

Terminating or threatening to terminate China's MFN status would seriously hinder significant U.S. interests. For various political, historic and cultural reasons, Chinese leaders are likely to retaliate, particularly against U.S. investments. More importantly, revocation of China's MFN status would weaken those in China most sympathetic to our political objectives and put at risk the economic and political development occurring in China.

Experience in Taiwan, South Korea and elsewhere suggests that this development would pave the way over time for the political and economic liberalization we seek, such as currency convertibility and reduction in tariffs, which have recently been announced.

In sum, AAEI strongly supports renewal of China's MFN status after July 1996. Terminating China's MFN status is neither good trade policy nor good foreign policy. MFN status for China is the best prescription for achieving both our political and economic objectives. Keeping with these objectives, AAEI strongly urges the Trade Subcommittee to seriously explore a long-term or permanent

renewal of China's MFN status which recognizes a de-linkage of human rights concerns from MFN. A more stable, dependable trade relationship will encourage China to further open its markets to U.S. goods and services, with associated benefits to the U.S. economy and our international competitiveness.

Thank you, Mr. Chairman.

[The prepared statement follows:]

**THE AMERICAN ASSOCIATION OF EXPORTERS AND IMPORTERS (AAEI)
STATEMENT ON UNITED STATES-CHINA TRADE RELATIONS AND
RENEWAL OF CHINA'S MOST-FAVORED-NATION (MFN) STATUS**

Introduction and Background

Good morning, Chairman Crane and members of the Trade Subcommittee. My name is Eugene Milosh, and I am President of the American Association of Exporters and Importers (AAEI).

AAEI is a national organization comprised of approximately 1,200 U.S. company-members who export, import, distribute and manufacture a complete spectrum of products, including chemicals, electronics, machinery, footwear, food, toys, specialty items, textiles and apparel. Members also include firms and companies which serve the international trade community, such as customs brokers, freight forwarders, banks, attorneys, insurance firms and carriers. Many of AAEI's member firms and companies have or are considering investment in China.

U.S. businesses in these areas of international trade will benefit, either directly or indirectly, from a decision to extend Most-Favored-Nation (MFN) status for China beyond July of 1996. A substantial number of AAEI exporters and importers are currently engaged in direct trade with China, with many AAEI retailer members sourcing as much as 30% - 40% of imports from China. Overall, more than one-half of AAEI's membership is involved in trade with China in some capacity. Considering the importance of continued China MFN for U.S. industry, including AAEI's members, we urge the Administration and Congress to revamp U.S. policy in an effort to avoid the annual MFN debate. To this end, AAEI supports President Clinton's 1994 decision to de-link human rights concerns from MFN consideration and urges serious exploration of long-term or permanent renewal of China's MFN status.

U.S.-China trade and investment has grown tremendously in volume and complexity since the U.S. first accorded China MFN status. Total trade has more than tripled since 1981 and nearly doubled since 1990. Total cumulative U.S. investment in China is rapidly increasing, and China is one of our fastest growing export markets, purchasing an estimated \$13 billion in U.S. goods and services last year.

MFN status is the cornerstone of normal commercial trading relationships with countries worldwide, including China, and is a key aspect of the bilateral trade agreement with China negotiated in 1979. The term "most-favored-nation" is a misnomer, suggesting some sort of privileged trading relationship. In fact, we grant most of the world's nations MFN status, which merely entitles a U.S. trading partner to the standard tariff rates available to other trading partners in good standing. The U.S., like most other countries, maintains two complete tariff schedules -- one set of standard rates for MFN countries, and a second set of often prohibitive rates for non-MFN countries. The tariff differential between these rate schedules generally ranges from 10% to 50%, and can be as high as 100% or more for some products, so that the loss of MFN status can effectively price a country's exports to the U.S. out of the market. The additional cost associated with denying MFN status would be paid for by U.S. companies and consumers.

AAEI Supports Unconditional MFN Renewal

AAEI strongly supports the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. As we testified in previous years, we believe that the threat of terminating China's MFN status is neither an appropriate nor effective tool for addressing human rights concerns. We urge the members of the Trade Subcommittee to take a strong stand in ensuring that human rights issues are kept separate from U.S. trade relations with China, as is the case with almost all of our other trading partners.

The Chinese market is already the world's third largest, according to an International Monetary Fund (IMF) study, and has continued to grow at an annual rate of more than 10%. This market is simply too important to our future international competitiveness and to the battle against inflation in the U.S. to ignore or to jeopardize through an unstable trading relationship. As President Clinton has recognized, MFN is the essential cornerstone for a long-term, stable bilateral relationship with China in both the economic and foreign policy realms. Any annual review process introduces uncertainty, weakening the ability of U.S. traders and investors to make long run plans, and saddles U.S./China trade and investment with a risk factor cost not faced by our international competitors.

AAEI members agree that human rights issues warrant our attention and further bilateral negotiations between the U.S. and China. However, the Association does not believe that the threat of terminating MFN is an appropriate or constructive tool for pursuing this important U.S. foreign policy objective. History suggests that despite China's strong interest in trade with the U.S., efforts to impose our will on the Chinese government through a series of public demands will prove to be counterproductive. MFN is the foundation on which the U.S. bilateral relationship with China rests.

Terminating MFN for China would not simply result in higher tariff rates for some imported goods; it would sever the basic economic -- and, consequently, geopolitical -- relationship between the two countries. It would also strengthen those in China who desire to see the People's Republic turn inward again, away from ideologically threatening capitalist influences, and would weaken those liberalizing forces that we seek to encourage. This would be particularly unfortunate while the leadership situation in China remains unsettled.

China's Post-June MFN Status Should Be Renewed

AAEI supports the President's human rights objectives. For reasons noted above, we do not believe that the unilateral threat to eliminate MFN -- and the uncertainty associated with annual MFN debates -- furthers either U.S. foreign policy or trade objectives. As an association of companies engaged in trade with China, the balance of our comments will focus on the trade and economic aspects of the debate. This, however, should not in any way be construed to suggest any lesser interest in the successful resolution of U.S. human rights concerns in China.

China has made some good faith efforts to respond to U.S. market-opening initiatives. Among important developments, China has agreed to remove high tariffs on hundreds of U.S. imports, increase transparency with regard to its trade operations and move towards currency convertibility.

There are a number of other reasons for supporting the continuation of MFN treatment for China. Trade with China must be kept open to maintain benefits to U.S. industry of a bilateral economic relationship with China. Failure to renew MFN would threaten the jobs of thousands of U.S. workers producing goods for export to China and would harm American businesses relying on Chinese imports for their livelihood. Tariffs, which are at an average 4% - 5%, would skyrocket to as high as 110% in some cases, increasing costs to American consumers by billions of dollars. In many cases, this increased cost would be inflationary and fall most heavily on those Americans least able to bear the burden.

An MFN Cut-Off Would Harm U.S. Importers

The loss of China's MFN status would also have both immediate and long-term consequences for AAEI members and the entire importing community. In the short-term, they would incur significant losses on merchandise already contracted for sale at a specific price, but not yet delivered. Payment for these orders are often guaranteed by irrevocable letters of credit. If duty rates increased from Column 1 to Column 2 levels before Customs clearance, these companies would be required to absorb the increases or pass them on to American consumers. American companies and American consumers, not Chinese, are harmed by increasing duty rates for merchandise which was previously ordered.

Over the longer term, the cost of delays, lost time, and unavailability of alternative supply could be even more damaging to businesses than duty increases. Many consumer products imported from China are not available in the U.S., and alternative sources of supply overseas would likely be much more costly than Chinese goods, of lesser quality, or unavailable altogether. The difficulties and uncertainties of trade with China have already pushed U.S. importers to search for alternative sources of supply. With the long lead times necessary for orders in many industries, some companies could easily lose a whole season, or even a whole year. This could cause major economic hardship. Companies would be forced to raise prices on goods, with consumers bearing the ultimate burden. In most cases, U.S. producers would not benefit from a cut in supply of Chinese goods because of their inability to produce competitively-priced products. Yet, a reduction in supply of these basic consumer items would cause considerable hardship for Americans with limited incomes who purchase basic-necessity consumer goods imported into the U.S. from China. With the growing threat of a higher inflation rate, this is a poor time to increase the U.S. cost of living.

Termination of China's MFN status could also make it difficult for U.S. companies to obtain products which are not easily accessible from other countries. In the case of textiles and apparel, U.S. quotas limit the amount of merchandise which can be imported from foreign countries. Thus, even countries which might have the ability to provide a somewhat competitive supply of a particular product may be unable to do so because they have filled their "quota" for the year. Furthermore, when quota is in short supply, as it most certainly would be if China MFN status were terminated, U.S. importers would pay a premium for quota itself, and provoke quota calls based on surges from countries not under quota.

An MFN Cut-Off Would Also Harm U.S. Exporters

Failure to renew China's MFN status would harm U.S. exporters as well as importers. China represents a significant, and very promising, market for U.S. exports, with approximately \$13 billion worth of American goods purchased by the Chinese last year. The Department of Commerce estimates the value of U.S.-China trade and investments will be \$600 billion in the next five to seven years. Historically, China has been quick to retaliate against foreign countries perceived as interfering with domestic issues. It would not be surprising for China to withdraw MFN for American goods and services and to limit U.S. investment and government procurement opportunities in response to elimination of MFN for Chinese goods. In fact, in 1987 during negotiation of a bilateral textile agreement with the U.S., China threatened to find another supplier for the nearly \$500 million worth of annual U.S. agricultural exports to China. More recently, U.S. aircraft exports have been threatened.

Unilateral U.S. action against China would cause a severe blow to U.S. exports to China. In addition to a possible loss of \$13 billion in U.S. exports, loss of the Chinese market would have a significant impact on some of our most competitive industries -- agriculture, aircraft, heavy equipment, machinery, telecommunications and chemicals. And, with our Western allies keeping the door open for many of their goods to China, the hard-won U.S. market share could disappear overnight, resulting in lost jobs in the export sector of the U.S. economy and an increase in the trade deficit. It would be truly ironic if the net result of the last few year's hard-won Chinese market opening commitments expanded business for European and Japanese competitors because U.S. companies are effectively excluded from the market by a U.S.-China breakdown.

Beyond the immediate loss of business in China and Hong Kong, an MFN cut-off would significantly jeopardize long-term U.S. commercial interests in the region. A Sino-American trade war would deprive U.S. companies of important business relationships and opportunities at a critical time in the growth of the Chinese economy.

China's economy has grown rapidly in recent years, at an average annual rate approaching 10%, and is poised for major expansion over the next decade. According to an IMF study, China's economy is now the world's third largest. Some predict it will be the largest economy in the world by the year 2010, or the year 2020 at the latest. U.S. companies have established a major presence in China, providing an ideal foundation for future expansion. A trade breach would threaten this foundation. It would also provide U.S. competitors in Asia and Europe with a major advantage.

MFN Trade Sanctions Would Be Counterproductive

Unilateral trade sanctions imposed for foreign policy purposes have a very poor history of effectiveness. They serve mainly as symbolic gestures, often at great expense to U.S. economic interests, U.S. exports and foreign market share, and consumer prices.

Elimination of China MFN, and the resulting withdrawal of U.S. business from China, would decrease Chinese exposure to Western values and free market ideas which have clearly played a part in China's move toward trade liberalization and a market economy. Liberalized, market-oriented sectors, such as those in South China, would be the first to be injured or even shut down if MFN were withdrawn, and Chinese authorities would direct business back to state-owned enterprises. Terminating MFN would merely enable Chinese authorities to blame the U.S. government for their current domestic economic problems, further strengthening hard-line, anti-Western elements in the government.

Furthermore, sanctions run counter to other U.S. foreign policy interests, including the stability of the Hong Kong economy and the future of the Hong Kong people. Hong Kong accounts for two-thirds of all foreign investment in China and one-third of China's foreign exchange, and is the port of entry and exit for much of the world's trade with China, especially that of the United States. Because of the unique combination of communications, financial and technical support, established and reliable legal system, and common language available in Hong Kong, more than 900 American companies have established a significant presence there, and of these, approximately 200 have chosen Hong Kong as their base for business operations throughout the region.

The damage to Hong Kong resulting from an MFN cut-off, which has been estimated at more than \$21 billion in trade alone, would seriously jeopardize Hong Kong's continued ability to serve this important role for American companies as entrepot and investment "gateway" for China and the region. Damage to Hong Kong would also have counterproductive effects on political and economic reform in China. Hong Kong is South China's most important source of external investment, with Hong Kong companies providing employment to three million people in Guangdong Province alone. The impact of MFN removal would be felt disproportionately there, weakening the very forces of liberalization key to future economic and political progress in China, and Hong Kong's security and well-being. The people of Hong Kong would be put at risk should Hong Kong, as it now functions, become less valuable to China.

Finally, the U.S. should not unilaterally act without the support of our major trading partners. Unless multilaterally imposed, sanctions are certain to be unsuccessful and the U.S. could run the risk of alienating its allies.

Conclusion

AAEI strongly supports renewal of MFN for China for another year. As stated, AAEI supports the President's 1994 decision to de-link human rights issues from the annual renewal of China's MFN status. Although we recognize the importance of focusing attention on human rights concerns in China, we do not believe that terminating China's MFN status will contribute to this worthy objective. We urge members of the Subcommittee to take a strong stand to ensure that human rights issues are kept separate from U.S. trade relations with China, as is the case with almost all of our other trading partners.

AAEI supports initiatives by the Administration and Congress to grant China MFN status on a permanent basis and urges serious consideration of a revision of the Jackson-Vanik Amendment toward this aim. A revision of Jackson-Vanik does not require a revision of U.S. human rights objectives in China. AAEI supports those human rights objectives. AAEI believes that President Clinton correctly determined that those objectives should not be limited to trade issues between the United States and China. The U.S. human rights objectives can, and should, be attained without terminating China's MFN status. Terminating China's MFN status could only harm U.S. trade and foreign policy interests, and ultimately, the progressive forces in China on which future progress will depend.

On behalf of the American Association of Exporters and Importers, I wish to thank Chairman Crane and the Trade Subcommittee for this opportunity to present the views of our membership on this important issue.

Chairman CRANE. Thank you, Mr. Milosh.

Chairman CRANE. Mr. Duggan.

STATEMENT OF E. MARTIN DUGGAN, PRESIDENT AND CHIEF EXECUTIVE OFFICER, SMALL BUSINESS EXPORTERS ASSOCIATION, ANNADALE, VA

Mr. DUGGAN. Mr. Chairman, I will be very brief.

I will vary slightly from what I said last year. I will change the deficit number that we experience with China from \$28 billion to \$38 billion last year over 1994, and we will probably be up around \$44–\$46 billion in 1996.

The deficit with China within another 2 years is going to surpass the deficit with Japan. I think that it is time for the policymakers to come together and bring the best brains that they can to deal with this situation. Over the last 15 years, we have had a \$1.5 trillion-plus deficit with the world. Eighty percent of that was with Asia. There is nothing really changing in that regard as we go forward. I think that it is time that we do something to address this issue.

The Small Business Exporters Association is made up of some of the most competitive manufacturers in the world. We do not back off from anybody; all we are looking for is opportunity. I do not think that opportunity exists to a great extent in China for small business.

I would like to see some money spent by our government, preferably through the private sector, to determine what the real impediments are over there, because we do not have the resources to do it ourselves. All we do is get feedback from members as to their experiences. These are isolated cases, and not enough of them to make an empirical case as to exactly what is going on.

But being as competitive as we are, we will settle for less than most-favored-nation status for the Chinese. I do not think it ought to be extended permanently or done away with. I think we ought to have an annual review to at least let them know that we are paying attention to what is going on over there, for a variety of reasons—and I am not talking about the human rights aspects, but strictly trade. From a small business perspective, they are not getting a fair shake in China, and I do not know what we can do about it until we take them to task on it. To continually back off because of the potential—everybody sitting at this table, for the most part, even though NAM does have a small business membership, they are still talking about a policy that is primarily driven by the multinationals, and it is the multinationals who have a major stake over there. But the rest of us come up short, we get shortchanged.

I sat next to a gentleman last year who went into a joint venture in China; it took about 2 years for the Chinese to take his technology and his investment. I think that was what Congressman Shaw was referring to. The fellow was an aircraft battery manufacturer from Florida. They forced him out, bankrupted the operation, transferred the assets, and the World Court awarded him \$7 million. The Chinese would not address the situation.

I do not think we have mechanisms in place that are going to ensure fair treatment for all business sectors. Certainly, with the

technology that a Motorola has and the kind of economic muscle and resources that they have, they can get along in almost any atmosphere in the world. But again, I am not here to put the knock on MFN. I think we have got to go forward with it. I just think that we have a clarion call, we have a problem with China, and I do not know that anybody in a policy position is drawing any kind of line in the sand and saying we should have some answers.

With that, I would just thank you for the opportunity to be here, and I will let it go at that.

[The prepared statement follows:]

**STATEMENT OF
E. MARTIN DUGGAN
PRESIDENT AND CHIEF EXECUTIVE OFFICER
SMALL BUSINESS EXPORTERS ASSOCIATION**

Mr. Chairman and members of the committee, I want to thank you for holding this hearing and for allowing the Small Business Exporters Association to testify on this most important question of continuing Most Favored Nation status for China. I am here to express the concerns of my members, who are dedicated exporters and who strive each day to meet the extraordinary demands of marketing and selling product in different parts of the world.

In the case of China, they are met with difficulties which should not exist between two countries which are economically strong and who should be self-confident enough to be open trading partners. Some of these small and midsized exporters have made the following comments:

"Most business is too closely tied to their government or is controlled by the government."

"Chinese always want to talk about joint ventures, but a joint venture to them means long term negotiations to establish a relationship, and then very long term financing which is seldom possible for a small business to offer."

"China doesn't understand small business. Their first question is always, 'How big?'"

A member from Illinois states, "My customers are suspicious that U.S. companies will not be reliable as suppliers - and therefore, manufacturers lose credibility."

Another member was forced to sponsor a "buying trip" for several Chinese businessmen. It cost him \$30,000 and he is still owed \$27,000.

A South Carolina manufacturer reports, "I will be participating in a trade show in China this September. My Hong Kong distributor warned me to be careful when I hire an interpreter. They are, in fact, government-sponsored 'industrial spies'."

A Chinese-American member from New Jersey feels that "China should at least allow U.S. companies to export its own brand name products in China without going through Chinese state-owned trading companies."

The experiences of these Americans show that the political and cultural climate in China has improved little in spite of years of Most Favored Nation Status. We give China preferential treatment on duty free or greatly reduced tariffs for their goods entering the United States - and it seems that all we receive in return is the right to continue treading water.

In the May 17, 1995 issue of Chemical Week, Minister Gu Xiulian restated that growth rates of 8 - 9% are established under the ninth Five Year Plan, with priority being given for such specific industries as electronics, automobiles, construction equipment, machinery and agricultural chemicals, in particular. The Chinese seem to know where they are going.

With our trade deficit expanding from \$1 billion in 1986 to more than \$38 billion in 1995, we need a policy that addresses the shortcomings in our trade relationship with China NOW. In ten years, it could be too late.

Why do we continue a relationship in which the rule of law, intellectual property rights, technology transfer, extortion and bribery are more the norm than the exception? Chiefly because Presidents Bush and Clinton have embraced the "Constructive Engagement" theory - and they are probably correct in believing that the only way to negotiate is to keep talking. We have this huge economic carrot being dangled in front of our faces representing potential sales to China if we are patient, but clearly patience alone won't do the trick. At the current rate, our deficit with China will surpass our deficit with Japan.

Mr. Chairman and members of the Trade Subcommittee, I am not here today to oppose Most Favored Nation status for China but rather to urge additional and stronger measures when dealing with this intransigent regime. We must overcome Chinese indifference to fair business practices and instill in them a desire to be respected in the global economy. We have already demonstrated our patience and willingness to defer to a much different business culture, but soon we must begin to tighten the screw.

The Small Business Exporters Association pledges its support of any diplomatic and economic changes which can continue Constructive Engagement but will demonstrate that trade concessions cannot be one-sided indefinitely. If doing business with friends is China's criteria, the U.S. should long ago have proved its willingness to be a friend. How long is it going to take?

Thank you for allowing us to testify on this most important issue. We wish you well in finding a solution to this most perplexing of problems.

Chairman CRANE. Thank you, Mr. Duggan.

Chairman CRANE. I am going to throw out just one quick question to anyone who might be able to answer it. Have you any idea how many of the Chinese people are currently employed in China as a result of American business presence there?

Mr. Milosh.

Mr. MILOSH. Certainly, it is the largest growing sector, the private sector, especially in the border provinces; it is the largest section employed in the private sector. So that it is making an impact on the decisionmakers, but from all indications, it cannot be reversed; it cannot go backward.

So I think the marketplace is taking hold, and it is going to be the driving force in the future. So that we can expect that it will have an impact on the political side. I think that is how the marketplace works. It does take over, it shows the benefits to the people, and certainly, as it expands, it will have a political impact.

Chairman CRANE. Thank you.

Mr. Portman.

Mr. PORTMAN. Thank you, Mr. Chairman. I will be brief.

Just quickly, on the deficit issue, I looked at Ms. Sullivan's testimony and noted that it is possible that we have misstated the deficit because of the re-exports from Hong Kong and others, and you talked about that. I guess when Hong Kong comes in in 1997, that will all net out, depending on how we are doing with our Hong Kong imports in the United States. It may be that the trade deficit will in fact improve rather than continue to escalate.

Also, with regard to the deficit and Mr. Duggan's comments at the end, I would just ask Mr. Duggan, isn't it true that your members have also seen an increase in their exports to China over the last couple of years and certainly over the last 12 months?

Mr. DUGGAN. Well, if you take a look at the trade with China, in 1986 it was a \$1 billion deficit, and it has taken these incremental jumps. We have had minimal jumps across the board, and even with the multinationals setting up over there, it is still very minor. If you take a look at the machinery categories—and I think it is right here in the NAM study—their numbers will show that if you go back 5 years ago, we had fairly sizable exports in electrical machinery to China, and their growth is at least five times as great as ours over that 5-year period, and it has gone from where they were a fairly negative exporter to where now, they are in the neighborhood of a little over \$3 billion in machinery exports.

Mr. PORTMAN. There is much we can do in terms of our trade laws and getting China to be more fair and open up, but I would also say that simply the deficit numbers should not be used as a barometer for deciding whether there is an opening of China's markets or not. We had a 20-percent increase in exports last year and the year before; we now have 170,000 jobs in this country that are directly related to exports to China. That is what is important. We have got to work on the export side. The import side really is another part of the equation.

Thank you all for coming.

Thank you, Mr. Chairman.

Mr. DUGGAN. Mr. Chairman, all I represent are exporters.

Mr. PORTMAN. Yes, I know that, I know that.

Chairman CRANE. Let me thank all of you for your testimony, and with that, the Subcommittee stands adjourned.

[Whereupon, at 3:10 p.m., the hearing was adjourned.]

[Submissions for the record follow:]

**STATEMENT OF THE
AMERICAN FOREST & PAPER ASSOCIATION**

**SUBCOMMITTEE ON TRADE
WAYS AND MEANS COMMITTEE
U.S. HOUSE OF REPRESENTATIVES**

**U.S.-CHINA TRADE RELATIONS AND
RENEWAL OF CHINA'S MOST FAVORED NATION STATUS**

JUNE 18, 1996

The American Forest & Paper Association (AF&PA) appreciates the opportunity to advise the Subcommittee of our views on U.S.-China trade relations and the renewal of Most Favored Nation (MFN) status for China.

AF&PA is the national trade association of the forest, pulp, paper, paperboard, and wood products industry. The vital national industry which AF&PA represents accounts for over seven percent of total United States manufacturing output. Employing approximately 1.6 million people, the forest and paper industry ranks among the top 10 manufacturing employers in 46 states, with an annual payroll of approximately \$47 billion. Total sales of U.S. forest and paper products exceed \$230 billion annually.

The U.S. is the world's largest producer of pulp and paper and paperboard. It provides 35 percent of the world's pulp, and satisfies 30 percent of global paper and paperboard demand.

In 1995, U.S. forest products exports totalled more than \$23 billion. Using the yardstick adopted by the Department of Commerce, these sales figures support about 440,000 direct and indirect jobs.

THE CHINA MARKET

The PRC represents a significant current export market for the U.S. forest products industry, but the potential for future sales is even greater.

In 1995, U.S. exports of pulp, paper and paperboard products to China totalled \$273 million. In addition, shipments of recovered paper for recycling by China's paper and paperboard mills amounted to almost \$51 million. According to a U.S. Department of Commerce report, in 1993, direct U.S. exports of pulp, paper and paperboard products to China represented approximately 21 percent of China's import market, the highest supply of any foreign supplier. Just behind the U.S. was Hong Kong, which held a 19 percent share; although, a sizeable amount of Hong Kong's paper exports to China are actually U.S. goods transhipped through Hong Kong.

For specific paper products, such as wood pulp and kraft linerboard, China is already an important market. In the case of kraft linerboard which is used in the manufacture of corrugated shipping containers, China is the largest export market for U.S. producers. In 1995, direct exports of U.S. kraft linerboard to China were valued at almost \$53 million. In addition, a major portion of U.S. kraft linerboard exports to Hong Kong -- \$133 million -- is reshipped to China.

In 1995, direct U.S. exports of wood products to China totaled \$27.7 million, with exports of value added hardwood lumber and veneer increasing dramatically by 70 percent from the previous year. In addition, the majority of U.S. wood products that eventually reach China are transhipped through Hong Kong, Taiwan or Canada. For instance, in 1995, between 70 and 80 percent of total U.S. hardwood products reached China after first going through Hong Kong.

Looking ahead, the China market for paper and wood products is expected to grow rapidly. Chinese consumption of paper and paperboard products posted double digit growth rates in 1992 and 1993, placing it third in terms of consumption of paper and paperboard products behind the U.S. and Japan. Even after this rapid growth, the Chinese market has not come close to exhausting its potential. In 1994, China's per capita paper consumption was still only 20 kilograms (kg), much lower than the world average of 48 kg. The Chinese government has forecast that per capita consumption will almost double by the year 2010, rising to 32 kg. The government also plans to improve the quality of domestically produced paper by raising the proportion of wood pulp in the paper making furnish. These changes are expected to provide U.S. pulp and paper suppliers increased sales opportunities in the Chinese market.

Although China's share of total Pacific Rim exports of U.S. wood products is small (\$27.7 million in 1995), the future market potential is promising:

- Chinese wood product consumption and imports are steadily increasing;
- although tariffs and quotas on value-added wood products still play a role in impeding U.S. exports, some import restrictions are slowly being eliminated as key trading areas become more independent from central government control; and
- there are significant immediate opportunities in China for U.S. hardwood lumber and veneer, and strong potential for softwood plywood, OSB, and engineered wood products over the next three to five years.

The ability of the U.S. forest products industry to participate in the future development of the China market on a competitive basis will require a carefully calibrated U.S. trade policy which has as its objective the full integration of China into the global trading system -- with its attendant benefits and responsibilities. For this reason, AF&PA recommends an approach which, on the one hand, accords China full Most Favored Nation (MFN) to U.S. markets and, on the other, applies an appropriately rigorous standard to the conditions for China's accession to the WTO.

EXTENSION OF MFN TRADE STATUS

AF&PA strongly supports the extension of MFN trade status for China.

Undeniably, there are commercial considerations behind this position. In the short term, we can anticipate that a denial of MFN status would inevitably lead to steps by Chinese buyers to reduce purchases from U.S. suppliers, including our forest products companies. It is also to be expected that our international competitors would act quickly to use a failure of the United States to renew China's MFN status at this critical period to improve their positions in this developing market, putting us at a long-term disadvantage, even assuming more normal relations were restored at some point in the future.

But our position is equally based on a firm belief in the market as the ultimate instrument of global democratization. The recent history of political change around the globe has made the point that the spread of the global marketplace is the single most powerful liberalizing force operating in the world today. To the extent that the U.S. has invested heavily in the expansion of the global free trade system, it has paid handsome dividends in terms of the realization of our larger foreign policy objectives.

To encumber China's full participation in the world's most open, most robustly competitive market -- as the denial of MFN status would do -- would insulate China from the very forces of liberalization that we wish to foster. This is the underlying fallacy behind the use of market sanctions as a means for changing illiberal behavior and the reason why the withdrawal of MFN status would not only fail to improve China's human rights record, but could actually have the contrary result.

Thank you for your consideration of our views.

SEPARATE CHINA TRADE FROM OTHER ISSUES

*By Edward R. Muller, Edison Mission Energy
Irvine, CA*

Statement for the Record
House Ways and Means Trade Subcommittee
Hearing on China's MFN Status
June 11, 1996

Again, we are engaged in our annual soul-searching over whether or not to renew China's most favored nation (MFN) trading status. Although the debate professes to examine US/China policies, it has become a destructive exercise that not only fails to achieve our policy goals, but also weakens the prospect of achieving them in the future.

It is time to bring this yearly drama to an end by making MFN status for China permanent. We must stop viewing MFN status as a foreign policy tool -- a benefit that can be awarded or withheld, depending on a country's willingness to support our objectives. Rather, we should view it as the basis of a long-term and reciprocal economic relationship -- the foundation upon which a normal bilateral relationship can flourish.

Human rights, intellectual property rights, nuclear proliferation, Taiwan and Hong Kong all are important and complex issues that do matter and must be resolved. MFN status establishes a relationship within which resolution of these issues can be pursued.

A sound MFN relationship with our trading partners is in the US national interest. It enables other countries to earn foreign currency by exporting their products to the United States, in turn strengthening those countries' ability to buy our exports.

By fostering trade-based economic development, MFN status also helps foreign countries establish and sustain market-driven economies, strengthen democratic institutions and improve social conditions.

During the 15 years that China has enjoyed reciprocal MFN status with the United States, the Chinese Government has gradually adopted market-oriented reforms, decentralized decision-making and improved the standard of living in many parts of the country.

As China's economy has developed, so, too, has the US/China economic relationship. China is now the fastest growing market -- a market our competitors in Japan and Europe would be only too happy to usurp.

In the last seven years alone, US exports to China increased from \$5 billion to more than \$12 billion. Moreover, with a population of 1.2 billion and the prospect of \$750 billion in infrastructure projects over the next decade, China will remain a key market for years to come.

By their very presence, US businesses accomplish much in China. US exports of goods and services expose the Chinese to consumer choices and information sources that were unimaginable two decades ago. US investment generates jobs and encourages the development of a growing, and vocal, entrepreneurial class.

In the case of the power sector, where a number of US firms -- including my own, Edison Mission Energy -- are pursuing opportunities, US projects will have a tremendous impact on the economy. Electricity projects fuel industrial production and power the improvements in telecommunications and information that are crucial to economic success in the global marketplace.

Project development and financing in themselves help establish sophisticated commercial and legal infrastructure. And access to safe and reliable electricity benefits Chinese people in their homes, schools and work.

Recognizing the importance of MFN as key to our relationship with China, ***President Clinton took a welcome first step when he supported renewal of MFN status for China.***

Next, ***Congress should support renewal unanimously.*** Any vote against it aimed at "sending a signal" to the Chinese," unfortunately, will only signal that the United States is still unable to develop a clear policy with regard to China.

Finally, ***Congress and the Administration should make this year's vote on China MFN status the last.*** While problems in China persist, we should acknowledge that China has made large strides in a relatively short time, and pursue further progress quietly through diplomacy, not as part of an annual Congressional fray over MFN.

President Clinton delinked human rights from the MFN debate once before, in 1994. To preserve the delinkage, let's eliminate this annual review once and for all.

Edward R. Muller is CEO of Edison Mission Energy, an independent power producer based in Irvine, California, that develops, owns and operates power plants throughout the world, including China.

Testimony of Representative Thomas W. Ewing

Before the House Ways and Means Committee

Subcommittee on Trade

June 11, 1996

Thank you, Mr. Chairman, for the opportunity to testify before this distinguished panel on the subject of Most-Favored-Nation status for China. I am a strong supporter of MFN for China, and in fact, when I was first elected to the Congress in a special election in 1991, my first vote was on this issue. I was for MFN then and I am even more convinced now that it is the right policy for advancing American interests within China. It is important, when discussing China, to distinguish between the Chinese people and the Chinese government. Because you can be for the Chinese people and against the Chinese government. Since we began granting MFN to China

sixteen years ago, we have witnessed tremendous gains in standard of living, freedom to work, and we have witnessed the creation of a middle class that is emerging as a powerful force for change within China. As we all know, there is lot of work in these areas that needs to be done. However, there is significant recent historical evidence to support the argument that economic liberalization begets political liberalization. Take South Korea for example, ten years ago it would have been unthinkable that former Presidents would be the subject of corruption investigations. Political accountability in South Korea in the mid-1980s was just not there. Taiwan is another example and I would argue that the free, democratic elections that they recently held were as unthinkable ten years ago as elections in China are today. The point that I am trying to make is that the Chinese people, like their neighbors in Korea and Taiwan, will gain more and more power over their government, and become less and less tolerant of unjust

government practices, as they become the source of wealth. In other words, as the economic liberalization continues and the entrepreneurial spirits take hold, the Chinese government will become increasingly reliant on the Chinese people and not the other way around as is currently the case. How many wealthy and economically liberalized countries in the world have human rights problems?

I would like to turn my focus to another subject that is close to my heart and that is agriculture exports. Agriculture has unique role in our export portfolio. While the total US trade position has been in deficit since 1971, US agriculture exports have consistently been in surplus. The US has an enormous comparative and competitive advantage in agriculture. We have the combination of the best farmland, quality infrastructure, and high technology that results in our continuing global dominance in exporting agricultural goods.

However, there is no other sector of the US economy with as much to gain or lose by restrictive trade practices as the US ag industry. Our dominance throughout the world has led US farmers to depend on foreign markets more than any other sector in the US economy. The vote on China MFN status could, for all practical purposes, be dubbed "Farm Bill 2." Revoking MFN would undoubtedly freeze out US farmers from the Chinese markets only to the benefit of their foreign competitors. To illustrate the importance of exports and the Chinese market to American agriculture I'd like to share some startling statistics with you.

- Currently, more than one million Americans have jobs that depend on U.S. agricultural exports. Every billion dollars in additional agricultural exports helps create nearly 20,000 new jobs -- in production, processing, marketing, transportation and shipping, as well as in other industries

that supply goods and services relating to agriculture.

USDA expects agriculture exports to exceed \$60 billion this year, accounting for nearly one-third of domestic production. In addition to boosting farm income, such exports are expected to generate approximately \$100 billion in related economic activity, resulting in a positive trade balance of \$30 billion. This reduces the overall U.S. trade deficit, provides billions of dollars in additional tax revenues at every level, and creates needed jobs throughout the economy.

- China's feed grain consumption over the past four years has climbed by over 50 million tons -- the biggest surge in world history. Grain for animal feed now accounts for 25 percent of compared to 50 percent in the US and Europe.
- Meat consumption in China is growing 10 percent a year,

or a staggering 4 million tons annually. And yet, per capita meat consumption is only 12 percent of that of the U.S. Similar rising consumption rates prevail for eggs, beef, and other food items. In two years, China has swung from being a net exporter of grain to importing 16 million metric tons. A trend that appears unlikely to reverse itself.

- China's consumption of corn -- more than 80 percent of which goes into animal feed-- expanded by a huge 10 million tons in 1995, to 105 million tons, compared with total U.S. corn output of 192 million tons.

Revoking MFN would take the U.S. out of the Chinese market at a critical point in China's market development and the void from our departure would gladly be filled by our competitors in Latin America, Europe and Australia. Producers

in these countries, although less efficient than U.S. farmers, would certainly leap at the opportunity to gain market share in China.

Mr. Chairman, as you know, I have introduced legislation that would permanently extend MFN for China and the 16 other nations currently subjected to the Jackson-Vanick process. Regrettably this hearing is not addressing this legislation directly. However, this annual renewal battle illustrates the importance of passing permanent MFN for China. Jackson-Vanick was a useful tool during the Cold War era, when it was part of the broader foreign policy dynamics of that era. In the post Cold War era, Jackson-Vanick has assumed a role that it was not intended to serve: namely an all-encompassing foreign policy lever. At no other time in American history has a bilateral relationship, as important as the US-China relationship, been micro managed by the

Congress. Indeed, not one of our trading partners has anything resembling our annual MFN debate with China. The annual MFN debate impedes our progress in the very areas that some profess to use MFN to correct. The bottom line Mr. Chairman, is that this annual fight is placing American interests in China at an extreme disadvantage.

I appreciate the opportunity to speak to you today and I look forward to working with the Subcommittee on my legislation at a later date. I would be happy to answer any questions that Members may have. I have enclosed a copy of the legislation.

104TH CONGRESS
2D SESSION

H. R. 2926

To extend nondiscriminatory treatment (most-favored-nation treatment) to the products of certain nonmarket economy countries.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 1, 1996

Mr. EWING (for himself, Mr. DREIER, Mr. KOLBE, Mr. KNOLLENBERG, and Mr. MANZULLO) introduced the following bill; which was referred to the Committee on Ways and Means

A BILL

To extend nondiscriminatory treatment (most-favored-nation treatment) to the products of certain nonmarket economy countries.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the "Export Market Sta-
5 bilization Act of 1996".

6 **SEC. 2. EXTENSION OF NONDISCRIMINATORY TREATMENT.**

7 (a) EXTENSION.—Notwithstanding title IV of the
8 Trade Act of 1974, nondiscriminatory treatment (most-
9 favored-nation treatment) shall apply to the products of

1 each country set forth in subsection (b) that is either a
2 member of the World Trade Organization or has entered
3 into a bilateral commercial agreement referred to in sec-
4 tion 405 of that Act that has taken effect as provided in
5 section 405(c) of that Act, and is in effect.

6 (b) LIST OF COUNTRIES.—The countries referred to
7 in subsection (a) are the following:

- 8 (1) Albania.
- 9 (2) Armenia.
- 10 (3) Azerbaijan.
- 11 (4) Belarus.
- 12 (5) China.
- 13 (6) Georgia.
- 14 (7) Kazakhstan.
- 15 (8) Kyrgyzstan.
- 16 (9) Moldova.
- 17 (10) Mongolia.
- 18 (11) Tajikistan.
- 19 (12) Turkmenistan.
- 20 (13) Ukraine.
- 21 (14) Uzbekistan.
- 22 (15) Bulgaria.
- 23 (16) Romania.
- 24 (17) Russia.

1 (c) **TERMINATION OF APPLICATION OF TITLE IV.**—

2 During any period in which nondiscriminatory treatment
3 applies to the products of a country under subsection (a),
4 title IV of the Trade Act of 1974 shall not apply to that
5 country.

6 (d) **CONFORMING AMENDMENT.**—General Note 3(b)
7 of the Harmonized Tariff Schedule of the United States
8 is amended by striking “Azerbaijani”.

9 **SEC. 3. EFFECTIVE DATE.**

10 The extension of nondiscriminatory treatment under
11 section 2 to the products of a country shall apply with
12 respect to goods of that country that are entered, or with-
13 drawn from warehouse for consumption, on or after the
14 15th day after such extension.

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TESTIMONY OF THE FASHION ACCESSORIES SHIPPERS ASSOCIATION
 ON U.S. - CHINA TRADE RELATIONS
 BEFORE THE SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS
 SUBMITTED BY: JOEL K. SIMON, ESQ.
 BARBARA Y. WIERBICKI, ESQ.
 COUNSEL TO THE ASSOCIATION

June 17, 1996

The Fashion Accessories Shippers Association, Inc. ("FASA"), is a trade association located at 330 Fifth Ave., New York, NY. The Association is comprised of one hundred (100) member firms who import handbags, luggage, small leather goods, gloves and belts from all parts of the world. The members are located throughout the United States, and are comprised mainly of small to medium size privately held companies, employing less than 500 workers, although some of the members are large public companies with thousands of employees. In total, FASA members employ more than ten thousand workers in the United States.

At the present time, approximately 87% of all handbags and related products sold in the United States are imported, with the largest percentage of products sold in the low to medium price range.

Once again, we thank the Committee for affording us the opportunity to offer its statement to express FASA's concern regarding the continued Most Favored Nation ("MFN") status for the People's Republic of China in 1996-1997. In the past, FASA has offered before this Subcommittee testimony which supported the goals put forth by the President for future renewal of MFN status for China, while at the same time we stated our very strong concerns about the negative impact that would occur if MFN status was removed.

At this time, FASA joins President Clinton, former Senate Majority Leader Dole, House Speaker Gingrich, U.S. Trade Representative Barshefsky, as well as hundreds of thousands of Americans in voicing its support for maintaining MFN status for China. FASA continues to believe that in the long run, the maintenance of MFN for China will have a twofold result. It would ensure the hundreds of thousands of jobs held by Americans involved in both export and import to / from China, and, it would result in achievement of the human rights goals that President Clinton and America support.

Both President Clinton and former Senator Dole recognize the repercussions of denying MFN status to China. President William Clinton: "Revoking MFN and, in effect, severing our economic ties with China, would drive us back into a period of mutual isolation and recrimination that would harm America's interests, not advance them." Former Senate Majority Leader Robert Dole stated that China's MFN status should be continued "not because it is in our economic interest, but because it is in our national interest. To deny MFN for China would set back our relations more than two decades, and send a disastrous signal of American withdrawal to our strategic allies throughout the Pacific Rim. Denying MFN would not free a single dissident, halt a single missile sale, prevent a single threat to Taiwan or save a single innocent Chinese life." As recognized by United States Trade Representative Charlene Barshefsky, in supporting MFN renewal despite the human rights situation in China being "deplorable," "it is clear that greater engagement on all fronts, including by U.S. corporations in China, will help encourage the emergence of a more open society." House Speaker Newt Gingrich has indicated that he, too, favors extension of MFN to China and would do whatever it took to ensure the House did not vote to deny or condition the privilege.

Indeed, political observers have voiced concerns over the possible aftermath of resultant confrontation between America and China: Hyper nationalism in China, which could precipitate higher Chinese defense spending, forcing "Tokyo and others to unilaterally increase their military strength, conceivably including the acquisition of nuclear weapons and ... wreck U.S. - Japan security ties. ... It defies logic to suggest that we would get Beijing's full cooperation on the Korean Peninsula ... Tension between [Beijing and Washington] tends to produce more strain between Beijing and Taipei ... not only would jeopardize much of Taiwan's \$25 billion investment on the mainland, which produces exports for the U.S. market, but Beijing also would put even more pressure on Taipei directly. In turn, Taipei would seek additional security guarantees (and weapons) from Washington. ... Is it sensible to believe that Beijing would not frequently exercise its [United Nations] Security Council veto to frustrate American goals [such as the Persian Gulf, Somalia, former Yugoslavia] if we declare economic war on China by removing normal tariff treatment? ... finally, overuse of the annual MFN threat, and repeated flip flops on the issue, have dangerously undermined American credibility in Beijing's eyes. ... [In summary] Because withdrawing MFN from China hurts America, Taiwan and Hong Kong as much as the People's Republic, it is not credible. If we continue making incredible threats, we will find opponents doubting our resolve when it matters most."

As testified to in the past, there is a great concern in the business community that action may be taken by Congress or the Administration, no matter their intentions, which will cause great hardship for many American workers and their families, as well as the workers and families in China. This hardship will take the form of lost American jobs on both the export and import side, as well as seriously diminishing, or even eliminating, the supply of inexpensive basic consumer items upon which Americans with fixed incomes have come to rely. Alternatively, should other sources be located, the price of these goods would likely be prohibitive to those on fixed incomes.

Should China lose MFN status, the duties on the products which our members import will increase to such an extent as to make most if not all products totally non-competitive. Leather bags will increase from 9% or 10% to 35%. Plastic bags will go from approximately 20% to 45%, man-made fiber bags will go from approximately 20% to 65% and braided bags will go from 8.4% to 90%. Similar large increases will apply to luggage, gloves and belts. Many workers would, at least temporarily lose their jobs if MFN were lost.

Many of the products that are imported from China continue to be subject to quota. Accordingly, our members will not be able to shift their production to other countries, because most other countries that are capable of producing our products will not have the quota necessary to allow entry into the United States. Even if we could overcome the quota problem, there is not enough production available in other countries to allow for a shift in orders to other MFN countries. In the last few years, in Taiwan and Korea, our industry's historic producers, production has fallen as costs in those countries increased and their economies moved away from low technology industries. Adding the additional duty costs to their sales price is not a realistic option for FASA members, either, as duty would average about 50% - an increase of 2.5 to six times of that paid currently. Since most of these products are low to moderately priced merchandise, the American consumer would be unable or unwilling to pay the price.

Rather, it is our belief that continued business contacts with the Chinese people will show the people that the United States has not abandoned them. The loss of American contracts by China, and the obvious resultant loss of jobs by its workers, could be contrary to the very interests America supports. These jobs have helped improve China's basic human rights policies. Not only have Chinese living standards risen, but it is also reported that state control over most aspects of the of their individual lives is seriously diminishing. Cutting business ties and putting the workers out of work could easily undo all the positive gains, economic, social and political, that China has made in the last ten years. It would give the leaders in Beijing ammunition to use against the United States by creating economic unrest within China. FASA members are fearful that the workers in China, who are more concerned with feeding and caring for their families than they are with politics, would be the "victims" of the loss of MFN. We, at FASA and other American firms, would be perceived as abandoning them after the promise of improved living standards that we have been giving them for the past ten years. It has been our experience that life in China had improved greatly for many people during the past ten years.

We must believe that some of that improvement is attributable to the hundreds of thousands of jobs created by our trade and the billions of dollars that have been paid to the Chinese workers for their labor and their products.

FASA is not unmindful of the potential injury to exporters, as well. As noted by President Clinton, revoking MFN to China "would cede one of the fastest growing markets to our competitors. ... China has become our fastest growing export market, with exports up 0% in 1995 alone." Finally, Commerce Department Under Secretary for International Trade Stuart Eizenstat accurately summed up the situation: "Renewal of MFN is in our national interest. It's not a gift to China."

On behalf of the Fashion Accessories Shippers Association, and its member companies across this nation, we hope that Congress and the Administration not only renew MFN for China, but do so permanently and without the imposition of any additional requirements.

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STATEMENT OF RUSS BERRIE AND COMPANY, INC.
 ON U.S. - CHINA TRADE RELATIONS
 BEFORE THE SUBCOMMITTEE ON TRADE COMMITTEE ON WAYS AND MEANS
 SUBMITTED BY: JOEL K. SIMON, ESQ.,
 BARBARA Y. WIERBICKI, ESQ.
 COUNSEL TO RUSS BERRIE AND COMPANY, INC.

JUNE 17, 1996

Russ Berrie and Company, Inc. ("Russ Berrie"), of Oakland, N.J., is a public company whose stock is traded on the New York Stock Exchange. The company employs approximately 2000 men and women worldwide, of which approximately 1200 are in the United States. In addition to New Jersey, it has facilities in California, West Virginia, Pennsylvania and Ohio. The company employs a sales force in each of the fifty states. Net yearly sales total approximately \$347,000,000.

The company develops and markets a vast selection of impulse gift products to retail stores in the United States, Canada, England and most of the countries in the world. Russ Berrie sells more than 11,000 different products, most of which are produced in the Far East.

Once again, we thank the Committee for affording us the opportunity to offer its statement to express Russ Berrie's concern regarding the continued Most Favored Nation ("MFN") status for the People's Republic of China in 1996-1997. In the past, Russ Berrie has offered before this Subcommittee testimony which supported the goals put forth by the President for future renewal of MFN status for China, while at the same time we stated our very strong concerns about the negative impact that would occur if MFN status was removed.

At this time, Russ Berrie joins President Clinton, former Senate Majority Leader Dole, House Speaker Gingrich, U.S. Trade Representative Barshefsky, as well as hundreds of thousands of Americans in voicing its support for maintaining MFN status for China. Russ Berrie continues to believe that in the long run, the maintenance of MFN for China will have a twofold result. It would ensure the hundreds of thousands of jobs held by Americans involved in both export and import to / from China, and, it would result in achievement of the human rights goals that President Clinton and America support.

Both President Clinton and former Senator Dole recognize the repercussions of denying MFN status to China. President William Clinton: "Revoking MFN and, in effect, severing our economic ties with China, would drive us back into a period of mutual isolation and recrimination that would harm America's interests, not advance them." Former Senate Majority Leader Robert Dole stated that China's MFN status should be continued "not because it is in our economic interest, but because it is in our national interest. To deny MFN for China would set back our relations more than two decades, and send a disastrous signal of American withdrawal to our strategic allies throughout the Pacific Rim. Denying MFN would not free a single dissident, halt a single missile sale, prevent a single threat to Taiwan or save a single innocent Chinese life." As recognized by United States Trade Representative Charlene Barshefsky, in supporting MFN renewal despite the human rights situation in China being "deplorable," "it is clear that greater engagement on all fronts, including by U.S. corporations in China, will help encourage the emergence of a more open society." House Speaker Newt Gingrich has indicated that he, too, favors extension of MFN to China and would do whatever it took to ensure the House did not vote to deny or condition the privilege.

Indeed, political observers have voiced concerns over the possible aftermath of resultant confrontation between America and China: Hyper nationalism in China, which could precipitate higher Chinese defense spending, forcing "Tokyo and others to unilaterally increase their military strength, conceivably including the acquisition of nuclear weapons and ... wreck U.S. - Japan security ties. ... It defies logic to suggest that we would get Beijing's full cooperation on the Korean Peninsula ... Tension between [Beijing and Washington] tends to produce more strain between Beijing and Taipei ... not only would jeopardize much of Taiwan's \$25 billion investment on the mainland, which produces exports for the U.S. market, but Beijing also would put even more pressure on Taipei directly. In turn, Taipei would seek additional security guarantees (and weapons) from Washington. ... Is it sensible to believe that Beijing would not frequently exercise its [United Nations] Security Council veto to frustrate American goals [such as the Persian Gulf, Somalia, former Yugoslavia] if we declare economic war on China by removing normal tariff treatment? ... finally, overuse of the annual MFN threat, and repeated flip flops on the issue, have dangerously undermined American credibility in Beijing's eyes. ... [In summary] Because withdrawing MFN from China hurts America, Taiwan and Hong Kong as much as the People's Republic, it is not credible. If we continue making incredible threats, we will find opponents doubting our resolve when it matters most."

As testified to in the past, there is a great concern in the business community that action may be taken by Congress or the Administration, no matter their intentions, which will cause great hardship for many American workers and their families, as well as the workers and families in China.

While Russ Berrie has products manufactured in Korea, Taiwan, Hong Kong, Thailand, Indonesia, The Philippines, Mexico, and the United States, China is its single most important source of product at this time. Estimates are that, in a single year, Russ Berrie has imported more than eighty million dollars worth of products from China. The possibility of the loss of MFN duty treatment for these products would be disastrous for the company and for the toy and gift industry as a whole if this legislation is passed.

There is no alternative source of supply presently available anywhere in the world that could fill the demand that would be created due to the loss of imports from China. The loss of imports from China would cause the company to lose a substantial amount of its sales. We estimate that some three to four hundred Russ Berrie employees would either temporarily or permanently lose their jobs. We do not believe that the story would be any different for others in this our industry, and we could easily foresee thousands of people unemployed in the toy and giftware industry alone. Commerce Department Under Secretary for International Trade Stuart Eizenstat stated that "Renewal of MFN is in our national interest. It's not a gift to China." As noted by President Clinton, revoking MFN to China "would cede one of the fastest growing markets to our competitors. ... China has become our fastest growing export market, with exports up 30% in 1995 alone."

Moreover, should MFN status be lost, Russ Berrie and other importers would be forced to look to other countries to make up for the lost production and sales in China. Due to the nature of the gift and toy industry, it is doubtful that any of this production would return to the United States. Since toys and impulse gift items are not necessities, price is always a consideration. Therefore, production will shift to those countries which can provide a large, inexpensive, but skilled workforce. Furthermore, withdrawal of MFN status could seriously diminish, or even eliminate, the supply of inexpensive basic consumer items upon which Americans with fixed incomes have come to rely. Alternatively, should other sources be located, the price of these goods would likely be prohibitive to those on fixed incomes.

Nor can we foresee a return of production to China, once new facilities are established. The loss of the American market to Chinese goods would surely result in a loss of the Chinese market to American goods. Such an event would not be temporary, as once new facilities are established it would be unlikely that they would be shut down or moved. Moreover, the uncertainty of future action against MFN status for China would make a return to China unlikely once MFN status was lost.

Additionally, the loss of American contracts by China, and the obvious resultant loss of jobs by its workers, could be contrary to the very interests America supports. These jobs have helped improve China's basic human rights policies. Not only have Chinese living standards risen, but it is also reported that state control over most aspects of the of their individual lives has seriously diminished. Cutting business ties and putting the workers out of work could easily undo all the positive gains, economic, social and political, that China has made in the last ten years. It would give the leaders in Beijing ammunition to use against the United States by creating economic unrest within China. Russ Berrie is fearful that the workers in China, who are more concerned with feeding and caring for their families than they are with politics, would be the "victims" of the loss of MFN. We, at Russ Berrie and other American firms, would be perceived as abandoning them after the promise of improved living standards that we have been giving them for the past ten years.

The people at Russ Berrie continue to believe that their experiences in China over the years has shown them that, as we expanded our economic contacts with the Chinese people, so have their lives improved. There has been more food, better living conditions and an easing of the political situation to the point where people found the courage to stand up to repression. Russ Berrie believes that the continuation of economic contacts with China and its people will, in the long-run, aid in the growth of democratic ideals and bring about a peaceful democratic revolution as we see happening in Eastern Europe.

On behalf of Russ Berrie and Company, Inc., we would like to thank you for your consideration of its concerns and urge that you support the renewal of MFN, and not impose any additional requirements on the extension of MFN for China for the next period, if not permanently re.

Statement of the
Toy Manufacturers of America, Inc.

In Support of Renewal of Unconditional MFN Trade Status for China

Committee on Ways and Means
House of Representatives

June 11, 1996

Summary

America's toy industry and American families have a huge stake in maintaining mutually beneficial economic relations between the United States and China. TMA therefore strongly supports the unconditional renewal of MFN status for China.

U.S. toy companies have helped China become the world's leading supplier of high quality, low cost, mass produced toys. The U.S. imported \$5.4 billion of toys from China in 1995, accounting for more than half of all the toys American families purchased last year. This trade benefits both China and the United States.

Were Congress to revoke MFN, American tariffs on most toy imports from our industry's most important supplier would suddenly leap from *zero* to *70 percent*. The impact would be severe. Toy sales would plummet and many companies would go out of business. The jobs of many American toy industry workers supported by trade with China would be put in serious jeopardy. Many more jobs in the importing, distribution, and retailing of toys from China would likewise be put at risk. The burden of the revocation of MFN would be felt acutely by families with lower disposable incomes.

American trade and investment with China advances long-term U.S. economic and strategic interests vis-à-vis China and promotes American values. The alternative to a policy of "engagement" with China -- trying to isolate China with trade sanctions and handicapping American business in China -- is bound to fail and hurt the U.S. as well as China. *Engagement is the right policy and MFN trading status is the foundation upon which engagement rests.*

The Toy Manufacturers of America, Inc. (TMA) is the trade association that represents 265 U.S. manufacturers and importers of toys, games, dolls, and festive articles. TMA member companies, who employ more than 40,000 Americans, account for approximately 85 percent of all toy sales in the United States. Toys are a \$50 billion global industry at the wholesale level and United States toy companies are the leaders in inventing, designing, producing, marketing, and selling toys around the world.

TMA strongly supports the unconditional renewal of MFN for China.

TMA submits this statement to explain the tremendous stake that the American toy industry has in trade with China and the huge cost that the revocation of *normal* trading status for China -- what the trade community confusingly calls "Most Favored Nation" or "MFN" status -- would have on American toy companies, their employees, and American families. That, we hope, will enable the Trade Subcommittee to understand why our industry so strongly supports unconditional renewal of MFN for China.

American toy companies employ over 40,000 Americans, about 70 percent of them in production work. We combine high-value added domestic operations -- such as design, engineering, and sophisticated production processes -- with low-cost, labor-intensive production overseas. This is not a new phenomenon. Labor intensive production of many American consumer goods, of which toys are but one example, began to migrate from the United States to developing countries in the 1950s. For industries like ours that are product driven, price sensitive, and highly competitive, this reluctant evolution was a straightforward matter of survival. This strategy was the only way we could hope to remain competitive, sell toys to families in the United States and around the world at affordable prices, and minimize the inevitable loss of low-skilled jobs in the United States. It has proven to be a highly successful strategy. Today American toy companies enjoy a significant competitive advantage and hold a global market share of approximately 50 percent.

Preserving that success is contingent upon maintaining normal, that is MFN, trading status for China. A quick review of history will put the situation in perspective. Before 1979, when the United States and China established normal commercial relations and assumed reciprocal obligations to grant one another MFN trading status, China produced no toys for the U.S. market. Why? The answer is simple. The *non*-MFN U.S. tariff rate for toys and dolls -- the toy categories that accounted for 75 percent of U.S. toy imports from China last year -- is **70 percent** (Non-MFN tariff rates for the other 25 percent of toy products imported from China range from 35 percent to 52 percent.) There was no way China could overcome such high tariff hurdles and be a competitive supplier of toys to the U.S. market.

Extending MFN to China in 1979 brought those tariff rates down to between 4 percent and 12 percent. Uruguay Round tariff cuts implemented last year brought U.S. MFN duty rates for toys to **zero**, a tremendous boon to our industry and to American families. Because of China's industrious, quality-conscious, and low-cost labor force, it was natural that toy production migrate to China from other developing countries. Over the past dozen years, American firms -- working through wholly-owned direct investments in China, joint ventures with Chinese and Hong Kong partners, and production contracts with Chinese firms -- have invested heavily in China, building plants and teaching manufacturing skills. As a result, China has emerged to become the world's leading supplier of high-quality, low-cost, mass-produced toys.

The United States imported \$5.4 billion of toys from China in 1995, accounting for more than half of all the toys American families purchased last year. To put that figure in perspective, Japan was our second largest foreign supplier and it accounted for U.S. imports of about \$1 billion.

Were Congress to revoke MFN for China now, our industry would suddenly find itself confronted with 70 percent tariffs on most toy imports from our most important supplier. The impact would be severe.

Tariff rates of 70 percent would drive the price of toys from China to prohibitively high levels. Consumer choice would be severely constrained. Toy sales would plummet. The burden of trade sanctions would be felt most acutely by families with lower disposable incomes, many of whom would face toy prices beyond their means.

Our industry is not a special case. Other U.S. consumer goods producers and importers -- including footwear, textiles and apparel, consumer electronics and others -- would face similar consequences if China's MFN status were to be revoked. Yesterday, the Business Coalition for U.S.-China Trade, of which TMA is a member, released a new study it commissioned from the International Business and Economic Research Corporation that estimates the *total* cost to American families of revoking MFN for China, including higher prices for toys, would be \$27 billion to \$29 billion per year. That is equivalent to an annual tax of about \$300 on each of America's 96 million households.

In addition, American toy companies exclusively dependent upon product from China -- TMA estimates possibly as many as fifty -- would soon be forced out of business. In the longer run, we estimate over a period of two to four years, the industry would adjust to this effective embargo on Chinese toy imports by moving production to other developing countries. The adjustment costs to the industry of replicating its investment in China would be enormous and there would be no guarantee that the high efficiency of Chinese production could be duplicated. As a result, the preeminent global position of America's toy companies would be put at risk.

The jobs of many American toy industry workers supported by trade with China -- we estimate as many as 20,000, particularly in the states of Rhode Island, New Jersey, Oregon, California, New York, Massachusetts, Ohio, and Texas -- would be put in serious jeopardy. Many more jobs in the importing, distribution, and retailing of toys from China would likewise be put at risk.

We view the imposition of conditions upon the renewal of MFN as virtually synonymous with outright revocation. Conditionality means uncertainty. We cannot plan and run our businesses if we are wondering whether our most important source of supply is about to disappear. Without continuity and certainty of supply, American toy companies also cannot plan to take advantage of the growing Chinese consumer market.

China has taken tremendous strides over the past 15 years since trade with the United States was opened. The quality of life of tens of millions of ordinary Chinese has improved vastly. Despite this progress, TMA member companies share the concerns of other Americans over the issues of human rights, the proliferation of weapons, the protection of intellectual property rights, and China's slowness to open its market. We nevertheless want to impress two critical points upon the Trade Subcommittee.

The first point is that the denying or conditioning of MFN is a totally inappropriate tool with which to address our concerns with China. MFN is simply too blunt and devastating a weapon to use to pursue U.S. objectives vis-à-vis China effectively. This Committee and the Congress have given the President a substantial arsenal of more limited but still highly potent weapons which the Administration has to date judiciously employed to protect and advance U.S. economic and foreign policy interests.

Our second point is that our industry's many years of experience in China has convinced us that America's economic and other interests will best be served by persevering in the policy of comprehensive engagement that all Administrations, Democrat and Republican, have pursued with bipartisan congressional support since 1979. This policy has never promised instant results, and there is no doubt there will be further setbacks along the way, but we believe comprehensive engagement is the only policy that holds the promise of achieving the results we all want to see.

Through their presence in China, American firms have an important role to play in support of that policy. Several concrete examples will illustrate this point in the case of the toy industry:

- TMA, through its Safety Standards Steering Committee working with the Corporate Safety and Health Services Department of Hasbro, Inc., recently published in Chinese a "Fire Prevention and Emergency Preparedness Guide" to assist managers of toy manufacturing plants in China in evaluating their fire prevention controls and emergency preparedness in the event of a fire.
- In March of this year, TMA, in cooperation with the United States Consumer Product Safety Commission (CPSC) and the State Administration of Commodity Inspection of the People's Republic of China (SACI), conducted three-day toy safety and fire prevention seminars in Guangzhou and Shanghai, China. The purpose of these seminars was to enable TMA and the CPSC to share with Chinese toy manufacturers, standard setters, and government representatives the technical expertise and experience of U.S. Government and industry experts in the areas of toy safety testing, quality assurance, and fire protection. More than 500 Chinese toy manufacturers and government officials attended the seminars.
- In November, 1995, TMA sponsored China's State Family Planning Commission a conference on "Intergenerational Play." The purpose of this program was to share with Chinese government media officials, toy industry executives, and Chinese scholars our respective insights into the role toys and intergenerational play have in child development.

Revoking MFN is the equivalent of waging economic war. It would do enormous damage to China, a country that is an increasingly important actor in all spheres of global affairs, as well as to ourselves. There is no reason to believe that it would advance the cause of U.S. economic and foreign policy interests. There is every reason to believe it would set us on a course of confrontation with China with potentially disastrous long-term consequences.

Comprehensive engagement is the right policy.

MFN is the foundation upon which comprehensive engagement rests.

Congress should, therefore, support the President's decision and the recommendation of Senate Majority Leader Dole to renew MFN for China.

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